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United Nations Office on Drugs and Crime

Financial report and audited financial statements

for the year ended 31 December 2015

and

Report of the Board of Auditors

United Nations • New York, 2016

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Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letters of transmittal

Letter dated 31 May 2016 from the Executive Director of the United Nations Office on Drugs and Crime addressed to the Chair of the Board of Auditors

In accordance with the United Nations Office on Drugs and Crime financial rule 7.3, I have the honour to transmit the financial statements of the United Nations Office on Drugs and Crime for the year ended 31 December 2015, which I hereby approve.

Copies of these financial statements are also being transmitted to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Yury **Fedotov**
Executive Director
United Nations Office on Drugs and Crime

Letter dated 30 September 2016 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the United Nations Office on Drugs and Crime for the year ended 31 December 2015.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

We have audited the accompanying financial statements of the United Nations Office on Drugs and Crime (UNODC), which comprise the statement of financial position as at 31 December 2015 (statement I), the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, and the notes to the financial statements.

Management's responsibility for the financial statements

The Executive Director is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal control as is deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of UNODC as at 31 December 2015 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

Further to our opinion, the transactions of UNODC that have come to our notice, or that we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of UNODC.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

30 September 2016

Chapter II
Long-form report of the Board of Auditors

Summary

Audit opinion

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Office on Drugs and Crime (UNODC) for the year ended 31 December 2015. In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of UNODC as at 31 December 2015 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Overall conclusion

UNODC operates in an increasingly challenging and competitive environment. While the current financial position remains sound, there are trends indicating the need for UNODC to expedite the change measures it has put in place by improving its financial management processes, such as enhancing budgetary control, recovering full costs on project activity and enhancing risk and project management. These initiatives are important to retain and enhance donor confidence and to ensure that UNODC can demonstrate its focus on greater cost efficiency and delivery. UNODC has continued the trend of underdelivering against its projected spend; together with a decline in voluntary contributions, this creates an environment where actions are needed to ensure the longer-term sustainability of the organization.

Although difficulties have arisen from the implementation of Umoja, it is important that the business embrace the opportunity the new system can create to improve internal control, provide better information to support decision-making and develop new and better ways of working. The new environment should be used to further develop the transparency of the cost base and to enhance accountability for the use of resources. While new systems and initiatives are in place to deliver, there is a need for a clearer and more realistic approach on how they will deliver the end goals for the organization at a lower cost. This entails an improved focus on demonstrating the outcomes from its activities and reporting them effectively. It is important for UNODC to ensure that these benefits are delivered and that they are used to create an environment of cost-efficient and data-driven decision-making.

Key findings

On financial performance

The current financial position of UNODC remains sound, but the Office continues to face significant challenges to sustain revenues to support its corporate and overhead costs and is further constrained by the increasing emphasis by donors on earmarked funding. The overall position was strengthened by a large donation of $49 million close to the end of the financial year and a large gain on the new valuation of after-service health insurance. However, there has been a decline in project revenues recognized under IPSAS during 2015, some of which has been due

to delays in several major projects. The decline in revenues places continued emphasis on the Office's approach to raising voluntary contributions and a greater understanding of its costs. The enhanced data available through Umoja will provide UNODC with greater opportunities to monitor the financial position. Continued vigilance will be needed to ensure that any continuing trends do not undermine the financial health of UNODC in the medium to long term.

On financial management and internal control

UNODC experienced difficulties in preparing its annual financial statements for 2015 owing to the impact of migration to the new Umoja system, which led to delays and significant adjustments to the draft financial statements presented for audit. Alongside other Secretariat bodies, a decision was taken to delay submission of the financial statements until June 2016 as a consequence of the impacts of implementation of the new Umoja system. While UNODC originally identified risks and the need for additional resources to support the transition, adequate budgetary provision was not ultimately allocated to strengthen capacity and support for the central administrative, programme and field operations. This had an impact on the capacity of the Financial Resources Management Service to compile the accounts on a timely basis and exposed issues around the accuracy of data provided by headquarters and in the field to support this process. This was further exacerbated by the impact of implementing the new system at the end of the 2015 financial year and the demands and challenges of working with a very different set of workflows and processes within Umoja.

UNODC will need to learn lessons from the financial audit of 2015 and enhance staff training in the use of Umoja, provide clearer instructions to document and review items such as obligations and accruals at year-end and establish systematic processes to compile working papers to support the year-end balances. This will improve the efficiency and accuracy of accounts production and better enable management review of the draft financial statements. UNODC will also need to learn lessons from the implementation in order to prepare more fully for the roll-out of Umoja Extension 2, which management anticipates will be in 2017.

The internal financial control environment now has greater visibility to management under Umoja, but this now needs to be utilized to ensure that better information for management decision-making is supported by improved accountability. UNODC has been hampered by multiple legacy systems, which have made regular reporting and oversight difficult. Umoja provides a more systematic approach to enforcing authorization processes and enhances the visibility on compliance matters. The implementation of Umoja will ultimately strengthen internal financial controls and the consistency of their application. However, the initial roll-out created tensions and delays, as users were unfamiliar with Umoja processes and invariably used those processes inconsistently. This in turn created additional burdens for support functions and created delays in transaction processing early in 2016. It is important that UNODC continue to provide support in the field, that effective monitoring be put in place to confirm compliance and that senior management reinforce the culture changes required to ensure that staff use system workflows appropriately.

The Board has noted the significant variations in the budgets endorsed by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice and the final out-turns, and it has also identified scope to improve the monitoring of budgets internally as a means of improving implementation of the approved resources of UNODC. There is a need for management to strengthen its budget scrutiny before offering the budgets for endorsement by the governing Commissions and to provide greater detail to explain variations and sensitivities in the figures provided. This would strengthen the Office's accountability to the Commissions and provide them with greater opportunity to provide challenge and oversight. UNODC should further build upon the quarterly monitoring reports produced for the Executive Committee to better monitor budget variations and performance on a more formal and regular basis. This should extend to a more comprehensive collation of variance analysis from operations and greater accountability in respect of the project delivery profiles. Once embedded, Umoja should provide greater functionality to allow the centre to monitor more closely whether projects remain on budget and time profile.

The Board has previously recognized the importance of identifying the full costs associated with the delivery of projects, but has noted that the full roll-out of the process for assessing these costs has been deferred. This will delay the benefit of improved financial information to support decision-making and to inform the strategic decisions in respect of project selection. The Board has noted that although more data is now available, it has not yet been fully utilized to inform decision-making on project approval; more can be done to leverage the potential to identify cost savings and efficiency. The initiative can play a major part in ensuring that the UNODC cost base remains sustainable and appropriate for the level and type of project activity required by donors. It is important for UNODC to continue to progress the full cost recovery initiative to its conclusion.

On strategic framework, delivery and reporting of projects

Better alignment of project activity to the strategic framework and a focus on capturing more measurable and qualitative elements of performance are increasingly important to demonstrate the efficiency and effectiveness of the UNODC project portfolio. UNODC is beginning to refine its performance measures, but more needs to be done to ensure that the draft indicators are measurable and emphasize the quality of outcomes. This will enhance donor confidence and increase the accountability of UNODC to its donors and the Commissions. Current measures make it difficult to evaluate objectively the effectiveness of projects and programmes.

Project approval processes are generally sound, but management needs to better focus its consideration of donor funding risks and the prior delivery record of the project teams. UNODC needs to ensure projects that are approved are realistic and appropriately funded and thus have the strongest possible chance of being relevant and delivered on time, within budget and with quality. Where approvals are given in advance of funding, there needs to be a better articulation of the risk that donor funds may be delayed, increasing the risk that the project may not be viable. Additionally, UNODC needs to better consider the delivery record of teams submitting projects for approval and ensure that any concerns are adequately mitigated in the project plans. Tighter approval processes will help to reinforce budget disciplines.

Donor reporting is an essential part of the UNODC accountability process and of ensuring that funding can be retained. Umoja implementation has delayed the reporting cycle, but UNODC can do more to make the process more efficient and controlled and assure itself that reporting timetables are being met. At present, there are no mechanisms to track the completion of reports to the donor timetable; this gives rise to the risk that timetables may not be met, resulting in the risk of donor dissatisfaction. The Board has also noted that there is scope to better influence the nature of the reporting so that it is more efficient, reflects internal reporting cycles and ensures that there are systematic processes to ensure the consistent reporting of project costs.

Main recommendations

In the light of the findings, the Board has made recommendations throughout the report, all of which are agreed by UNODC. The main recommendations are that UNODC:

(a) **Provide specific training for programme staff to ensure that they understand the rules and procedures for processing Umoja transactional workflows, and that management support the Financial Resources Management Service in ensuring compliance with Umoja processes;**

(b) **Undertake a thorough review of close-down procedures as Umoja reporting functionality is enhanced, and seek early engagement with the Board on the audit trail, working papers and closure processes to support a more efficient audit process;**

(c) **Provide a greater level of detail to the Commissions to support the reasons for variations between original, revised and final projected budgets, and that any assumptions that might give rise to out-turn variations be highlighted to enhance oversight and accountability;**

(d) **Impose greater rigour on budget holders to support the assumptions underpinning the quality of their proposed budgets and expenditure profiles and ensure that the Financial Resources Management Service meets more frequently with the UNODC directors, as well as field office and programme managers, to confirm whether the information reported to them is relevant;**

(e) **Develop its standard performance indicators to ensure that they allow programmes to be properly measured, including at a strategic level. On the basis of the draft indicators reviewed by the Board in March 2016, UNODC could improve its framework through:**

(i) **Prioritization of the expected accomplishments and indicators at the organizational level;**

(ii) **Greater emphasis on measures of efficiency or cost-effectiveness;**

(iii) **Clearer alignment and relevance to each of the nine subprogramme strategies;**

(iv) **Inclusion of a results chain linking project delivery to expected accomplishments;**

(v) Increasing the number of outcome measures, and in doing so placing more emphasis on measures of quality of provision;

(f) Enhance accountability for the management of funding risks within projects, requiring teams to specify how their funding gap will be filled, to identify the degree of project and cost risk and how it can be mitigated. Furthermore, UNODC should expedite the process of full cost recovery to enhance the information on programme costs to support improved decision-making;

(g) Enhance the central monitoring of donor reporting requirements and develop and seek opportunities to create a more consistent reporting framework aligned to the information that can be produced efficiently from its systems and to its internal reporting cycles.

A. Mandate, scope and methodology

1. The United Nations Office on Drugs and Crime (UNODC) is mandated to assist Member States in tackling illicit drugs, crime and terrorism. Headquartered in Vienna, UNODC operates globally with a core staff of 644, supported by around 1,015 United Nations Development Programme (UNDP) personnel from 68 locations. Almost all of its activities are undertaken through individual projects at the global, regional and country levels. Country and regional projects are primarily the responsibility of the regional offices of UNODC, with global projects led from its headquarters.

2. The Board of Auditors has audited the financial statements of UNODC and has reviewed its operations for the year ended 31 December 2015, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations and the Financial Rules of UNODC, as well as the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNODC as at 31 December 2015 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence of transactions to the extent that the Board considered necessary to form an opinion on the financial statements. The audit was carried out at UNODC headquarters in Vienna.

4. The Board reviewed UNODC operations under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board has commented on the financial position of UNODC, the implementation of new financial systems (Umoja) and the impacts on the control environment. The Board has looked at the financial information used for decision-making, reviewing elements of budgetary control and how UNODC is implementing its full cost recovery initiative. The Board has also examined how UNODC projects are aligned with its strategic framework and the approval and reporting frameworks. These are critical to demonstrating how UNODC is effective in using its resources and the continued sustainability of operations.

5. The report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly and have been discussed with the UNODC management, whose views have been appropriately reflected.

B. Follow-up of previous recommendations

6. As at 30 September 2016, of the 27 outstanding recommendations made for 2014 and previous years, 6 (22 per cent) had been fully implemented, 11 (41 per cent) remained under implementation, 9 (33 per cent) had been superseded or closed and 1 (4 per cent) had not been implemented (see table II.1). More detail of the implementation of the previous recommendations is provided in the annex.

Table II.1
Status of implementation of recommendations

Year	*Total*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
2011	2	1	0	0	1	0
2012	0	0	0	0	0	0
2013	11	3	2	0	5	1
2014	14	2	9	1	1	1

Source: Previous Board reports on UNODC

C. Financial performance and management

Key facts

246 projects being managed by UNODC as at 31 December 2015

68 countries in which UNODC operates

$736.6 million original budget for the biennium 2014-2015

$604.3 million final spend for the biennium 2014-2015

644 staff and 1,015 local personnel

$272.7 million net contributions receivable, from donors, under current agreements

1. Financial overview

7. UNODC is funded mainly through voluntary contributions. In 2015, these amounted to $238.7 million net (2014: $290.0 million) of total revenues of $275.2 million (2014: $328.6 million). Revenue also included $29.0 million from the United Nations regular budget. Expenses for the year were $278.9 million (2014: $325.4 million), resulting in a deficit of $3.8 million (2014: surplus of $3.2 million). This is due primarily to the decline in the level of voluntary contributions received during the year. The Board has further noted the continued trend towards earmarked resources; only $4.3 million of $249.1 million of voluntary contributions were unearmarked in 2015. Consequently, UNODC needs to make effective decisions about the use of its resources and to ensure that the programme costs and revenues are tightly controlled to cover the UNODC cost base. The Board

in its report makes recommendations to improve budgetary and project control in UNODC.

8. The Board's analysis of key financial ratios (table II.2) demonstrates that despite the competitive environment for donor funds, the current financial position of UNODC remains sound, with the ratio of assets to liabilities being $2.46 of assets for every $1 of liabilities. When excluding the non-current assets and liabilities, the ratio remains positive at $3.04 of assets for every $1 of liabilities. The ratio analysis has been relatively consistent across the past three financial years. However, the Board has noted a significant decline in the level of voluntary funding recognized on an IPSAS basis despite the receipt of a significant donation of $49.1 million in late November 2015. UNODC will need to monitor the flow of voluntary funds to assess the impact of any continued decline in contributions, since this trend could affect its ability to sustain its current cost base. The Board noted that the Economic and Social Council, in its decision 2015/234, expressed its concern about the governance and financial situation of the Office.

Table II.2
Financial ratios

Description of ratio	*31 December 2015*	*31 December 2014*	*1 January 2014 (IPSAS opening position)*
Total assets: total liabilities[a]	2.46	2.30[b]	2.34[b]
Assets: liabilities			
Current ratio[c]	3.04	3.10[b]	3.12
Current assets: current liabilities			
Quick ratio[d]	2.95	1.96	1.62
Cash + investments + accounts receivable: current liabilities			
Cash ratio[e]	1.72	1.62	1.70
Cash + current investments: current liabilities			

Source: Board analysis of UNODC financial data.

[a] A high ratio is a good indicator of solvency.

[b] Restated.

[c] A high ratio indicates an entity's ability to pay off its current liabilities.

[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position. It is calculated as current "cash and cash equivalents" plus "investments" plus "voluntary contributions receivable" plus "other receivables" divided by "total current liabilities".

[e] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds that are in current assets to cover current liabilities.

9. The two major components of the UNODC asset base are cash and investment balances, which totalled some $461.0 million (2014: $427.3 million), and voluntary contributions receivable from donors of $272.7 million (2014: $297.6 million). Cash and investment balances are managed under a cash pool arrangement operated by the United Nations Secretariat in New York. The returns on the UNODC cash

balances totalled $2.2 million (2014: $2.4 million). Voluntary contributions receivable represent the remaining sums due over the lifetime of the current agreements with donors, of which $52.7 million (2014: $65.6 million) is due to be received in more than one year's time. The level of voluntary contributions fell by some 18 per cent during 2015, reflecting the decline in the receipt of voluntary contributions overall. UNODC sustainability is dependent on retaining a pipeline of future cash resources.

10. The most significant liability of UNODC is for the advance receipt of voluntary contributions of $169.7 million (2014: $184.2 million). Of this, $163.2 million (2014: $179.8 million) is from current European Union agreements where the revenue will be recognized as the conditions set down in the agreements are met in future financial periods. These advance receipts represent commitments to donors for the provision of future services. The scale of these deferred revenues demonstrates the extent to which future revenues, and a good portion of receivables, are dependent upon UNODC continuing to deliver current projects and programmes in line with expectations.

11. The second most significant element of UNODC liabilities are employee benefits of $101.9 million (2014: $119.1 million). The employee benefit liability represents obligations that had been incurred at year-end, the largest element being the estimate for the cost of after-service health insurance of some $74.8 million (2014: $94.2 million). The basis of estimation used to calculate the actuarial valuation of after-service health insurance liabilities was further refined during 2015. This provided a more granular assessment of the specific health-care plans of UNODC participating members and a more accurate allocation of the regular budget staff numbers; this element of the valuation was previously estimated on the basis of an apportionment of the total regular budget in 2014. The effect of the estimation changes alongside other experience adjustments resulted in an overall net actuarial valuation gain of $24.4 million on the after-service health insurance liability, as disclosed in note 15 to the financial statements. It remains important to ensure that currently funded projects provide sufficient contribution to meet any associated increases in costs so that past project activity does not have to be substantively funded by future donors.

2. Financial management and internal control

Financial accounting

12. 2015 was the second year in which UNODC prepared its financial statements in accordance with IPSAS. In its previous report (A/70/5/Add.10), the Board observed the importance of embedding the IPSAS principles in its operational and financial management to gain the full benefit of the transition. Critical to this was the need to carefully review balances in the field and to maintain timely and accurate financial records; this would enhance the quality and timeliness of financial information outputs to better support decision-making throughout the year. During the audit of the 2015 financial statements, the Board noted that UNODC had taken some steps to improve the quality of the financial information, but that the culture of IPSAS was not yet embedded; this was further affected by the introduction of Umoja in November 2015.

13. The scale of audit adjustments was significantly higher than in previous years owing to a combination of factors relating to the new system, the need for UNODC headquarters and field offices to better embed the concepts of the delivery principle underpinning IPSAS and the pressures on staff of the Financial Resources Management Service in the aftermath of implementation. The combination of these factors led to a delay in the presentation of financial statements to the Board, the first full drafts of which were presented on 10 June 2016. The consequence of this resulted in more management time being required to prepare the draft accounts for submission to the Board and an increased number of audit queries. The Board had to expend considerable additional effort this year to gain the necessary assurance over the financial statements in 2015.

14. The overall gross errors arising from the audit amounted to $95.2 million. The Board was content that, following adjustment of material errors to the financial statements arising from its work, the financial statements fairly presented the financial position of UNODC. Additionally, as part of continued efforts by UNODC to refine its accounting, the treatment of benefits for regular budget staff was re-evaluated, resulting in the derecognition of opening receivable balances of $37.985 million. This is disclosed in note 16 to the financial statements. The Board has provided to UNODC feedback on the key issues arising from the 2015 audit and a schedule of the errors and the control and process weaknesses identified during its audit.

15. It is important that the Financial Resources Management Service work with management both in Vienna and in the field to secure improvements to the efficiency and accuracy of the year-end process and to ensure timely production of the financial statements. Senior management needs to support the Financial Resources Management Service team in enforcing compliance with processes and timetables for Umoja and the closing down of accounts as well as ensuring more effective local review of data supporting accounting judgments, such as accruals. Delays in account preparation have a consequential impact on the business by distracting management and delaying the provision of timely and accurate financial data to support the ongoing business operations and decision-making. For example, in the early stages of the implementation of the Umoja operating environment, the Board found that UNODC had not been performing a monthly reconciliation with UNDP. The maintenance of key control accounts is critical to ensuring the ongoing data held within financial systems. This minimizes the amount of year-end journal activity and ensures that financial information is accurately maintained during the year.

16. The Board recognizes the significant pressures on the Financial Resources Management Service team associated with the transition to IPSAS, closely followed by the impact of the Umoja transition and some of the underlying system and reporting issues. They resulted in Financial Resources Management Service staff having significant workload pressures, which meant that some key processes were delayed or less effective than in previous years. Through this year's audit process, the Board has identified a number of key actions that will need to be established to enhance the efficiency of the accounts preparation process, including:

(a) Improved audit trails to support the mapping of the general ledger to the financial statements and the underlying support for key balances;

(b) Enhanced review at the field office level of the transaction detail and for accurate data entry for obligations raised in the system;

(c) Maintenance of ongoing control account disciplines (including reconciliations) to monitor and review the composition and validity of the assets and liabilities of UNODC;

(d) A critical review of significant items, such as the after-service health insurance balance and variances with prior period, the recognition points for voluntary contributions, and unliquidated obligations to ensure reconciliation with the underlying records. These actions would help to minimize the risk of error and improve the quality of the draft financial statements;

(e) Review of the financial statements to assess the nature of the changes in balances and comparative figures, which will serve to help management to better understand the business and identify any unusual balances.

17. **The Board recommends that the Financial Resources Management Service undertake a thorough review of close-down procedures as Umoja reporting functionality is enhanced and seek early engagement with the Board on the audit trail, working papers and closure processes that will be provided to support the 2016 audit process.**

18. **The Board recommends that UNODC ensure that key financial reconciliations are undertaken on a systematic basis and that control accounts are maintained to facilitate the review of key balances on a regular basis.**

Implementation of Umoja

19. In previous reports, the Board highlighted the complexity of systems and the difficulties they created in providing visibility over the application of the financial control environment. This difficult systems environment continued for 10 months of the 2015 financial year. In common with the wider United Nations system, UNODC implemented the Umoja enterprise resource planning system in November 2015. The implementation was a major change for UNODC, requiring significant management effort and planning for process changes. UNODC decided not to make budgetary provisions at the level recommended for supporting the Umoja transition owing to budget restraint; a temporary recruitment freeze further delayed the onboarding of the Vienna Umoja support team. The changes to the systems and the consequent demands on UNODC finances and staff at large resulted in significant business consequences and impacts, which the Board considers were underestimated by UNODC. The impact of this should be considered for any future roll-outs of Umoja releases.

20. Despite high levels of manual adjustment, UNODC managed the migration of data from the legacy systems (the Integrated Management Information System and PeopleSoft) in a controlled manner, although the audit trail was complex. However, along with other United Nations entities, UNODC experienced significant issues following the initial implementation. System functionality and processing issues remained during 2016, as users did not operate the system as intended. The close-down of the 2015 finance ledgers was delayed and further difficulties were encountered in producing the reports necessary to support the financial statements.

Several processes could not be reliably completed automatically, and manual intervention was thus required. For example, the Financial Resources Management Service had to undertake a thorough review of transactions posted in 2016 to ensure that the accrued expenditure estimate for 2015 was accurate and complete; some $10 million of additional accruals was identified during this exercise. Furthermore, the initial value of unliquidated obligations presented for audit was $42.2 million. The Financial Resources Management Service had to manually review each commitment to ensure that it was a valid commitment as at 31 December, resulting in a reduction of $7.4 million. The process of constructing statement V in itself is still a manual exercise, requiring the consolidation of multiple working papers and manual adjustments to capture the correct transactions to include in the statement.

21. UNODC will need to continue to assess the ongoing training requirements for users of the Umoja system and ensure that it continues to liaise closely with the Umoja user groups. Training efforts should be focused on remedial training to consolidate user understanding and develop a greater awareness of system functionality. Part of this requires a continued focus on changing the culture to reflect a greater awareness and emphasis on following established Umoja processes and compliance with rules and regulations in such areas as procurement, Umoja workflow protocols, official travel and the purchasing, receiving and payment cycles. Cultural change plays a significant role in determining whether Umoja will achieve its stated benefits. It is important that UNODC undertake a formal exercise on lessons learned on the implementation to inform future roll-out of functionalities and to ensure that Umoja is fully embedded in its business processes and all users are confident and competent in operating Umoja as intended.

22. In compiling the 2015 financial statements, there were complexities in mapping the legacy systems' codes to those in the Umoja system, as the coding structures differed. Umoja seeks to harmonize account code structures across all the United Nations entities; the issue identified this year should be unique to the 2015 transition. Similarly, there was additional complexity arising from the significant use of manual adjustments as a result of several automated batch data input failures, for example, reallocation of short-term and long-term voluntary contributions receivables in which the information already stored on the system should have been used.

23. There were also large numbers of Umoja conversion journals (nearly 4,000 individual lines), manual adjustments and reclassifications. There were over 2,000 manual journals (nearly 5,000 individual lines) posted after 31 December 2015. The scale of the adjustments exceeded the Board's expectations and reflected the inadequate control processes over journal entries; a significant number of manual journals subsequently had to be cancelled or corrected. While the Board notes that some groupings of these journals were caused by a lack of initial Umoja functionality, there is a need for UNODC to ensure that journal entries are more accurately described and supported to enable effective review and to facilitate a more efficient process.

24. **The Board recommends that UNODC provide specific training for programme staff to ensure that they understand the rules and procedures for processing Umoja transactional workflows, for which they now have responsibility, and furthermore that management support the Financial**

Resources Management Service in ensuring compliance with Umoja and year-end process.

25. **The Board recommends that UNODC seek to minimize the number and complexity of journal entries and ensure that all journals are accurately described and supported within the system documentation to aid efficiency and review.**

Internal control

26. The Board reported in 2014 that UNODC operated with a particularly complex accounting system involving multiple databases. In addition to the two financial business systems, data entry and financial monitoring during the first 10 months of 2015 took place through and across several other systems, such as the Funding Agreement and Donor Profile, for income management, and ProFi, for project management, procurement and asset management. As the Board has reported in previous years, those legacy systems and processes were fragmented and created additional pressure on the quality of first-tier controls operating at lower levels in the business. Higher level (entity-level) controls were very difficult to operate given that the legacy systems were not integrated and management had limited visibility of compliance matters across operations. In turn, as previously reported, the Board's view was that the scope for improving the internal control environment was limited until Umoja was implemented.

27. Since Umoja implementation, in November 2015, the situation has changed. Umoja provides a less complex system in terms of common ledger codes and features common workflows that embed enhanced internal controls, such as authorization roles and segregation of duties. This enables the Financial Resources Management Service and other approving or monitoring functions to review individual transactions in full and on-system without needing to source paper or e-mails from across the UNODC office network. However, for the most part, these control improvements had not been fully realized in time for the production of the 2015 financial statements.

28. The Board notes that some uncertainty remains in respect of the Umoja Extension 2 release to cover project management, and UNODC is continuing to work with the United Nations Umoja process owners in New York to ascertain the extent of the future project portfolio, grants management and additional budgetary functionality critical to UNODC business planning and monitoring. In the meantime, some of the legacy systems will need to remain in use, limiting the visibility and control that the Vienna headquarters can exercise over field operations.

29. As Umoja matures, UNODC should seek to exploit the richer data available to enable more effective oversight and monitoring of such areas as travel, procurement and project delivery. The Board has already noted that Umoja provides improved visibility for the Financial Resources Management Service to identify non-compliance, and these areas should be monitored systematically as the reporting capability matures. It is important that these processes be used to ensure greater enforcement of the compliance culture and to ensure that the business uses the more efficient processes that Umoja was designed to deliver. This information

should also be used to inform the specific training needs of users. If used effectively, Umoja can significantly strengthen the ability of UNODC to mitigate against the risk of fraud or wasteful expenditure, as well as acting as a single source of financial data. This will in turn improve the Office's ability to promptly and accurately provide donors with greater confidence that resources are used effectively.

30. **The Board recommends that as Umoja reporting functionality develops, a systematic process be established to monitor and report on compliance, and that the data be used to inform training needs and to enhance the culture of compliance and effective operation of Umoja within UNODC.**

Risk management

31. A key part of internal control is the management of risks. In its previous report, in 2015, the Board reported on roll-out by UNODC of the United Nations risk management framework at headquarters and in country offices. Since that report, divisional and regional risk registers have been compiled, and the process will be completed with the roll-out of the country offices' risk response and treatment plans in the first quarter of 2017. At the corporate level, UNODC now has in place risk mitigation plans, risk monitoring and regular meetings of risk focal points. However, the information gathered from the country office risk registers has not yet been incorporated into the corporate-level risk register, owing largely to the focus of activity on Umoja implementation, which delayed the completion of the roll-out to the country offices to May 2016. UNODC anticipates feeding the results into the second enterprise risk management assessment to be undertaken in line with the Secretariat's risk management framework, which requires such an assessment to be undertaken every two years. The Board would encourage UNODC, outside of the timetable of the United Nations risk management framework, to refresh the corporate risk register more frequently, in order to reflect the risks identified at the lower levels of the business. This would create a more current and systematic view of the Office's risks and allow for a more comprehensive and coherent set of mitigations to be maintained, which could be used to support the management of current business and operational risks.

32. Enterprise risk management can better inform senior management and serve to enhance the accountability of risk owners, providing greater assurance over the governance arrangements of UNODC. The Board has noted that there has been significant emphasis on the financial risks around Umoja implementation and the impact of full cost recovery. Tools are being developed to monitor business impacts, and risk focal points meet monthly to talk about the risk mitigations and the process in general. In reviewing the current risk management arrangements, the Board considers that it is important for the Executive Committee to use the risk data and to scrutinize and challenge the effectiveness of mitigations with clear management actions. The Board considers that formal documentation of this challenge would improve the active accountability of managers to ensure that risks are appropriately identified and mitigated.

33. **The Board recommends that UNODC make better use of existing risk material collated to inform management decisions, and that risks and their mitigations be regularly reviewed by senior management and reassessed to inform the corporate risk register.**

Budgetary control

34. Sound financial management is built around effective planning and monitoring of the resources provided to an organization. A key part is the financial plan established by management, which forms the basis for the formulation and approval of a budget. UNODC operates on a biennial budget, which in effect has three elements: general purpose funds, special purpose funds and the regular budget. The general and special purpose funds are derived from the voluntary contributions, which finance over 90 per cent of the Office's activity. General purpose funds are derived from unearmarked voluntary contributions, and so can be defrayed more broadly, whereas special purpose funds are earmarked and thus restricted, in line with the particular donor agreements. The regular budget element attributable to UNODC refers to those activities which the General Assembly funds for its activities.[1] The delivery of project activities generates a contribution to programme support costs; these costs are used to provide resources to fund general overhead costs associated with running operations not attributable to programme activities.

Budget reporting to the governing bodies

35. The respective Commissions, namely, the Commission on Crime Prevention and Criminal Justice and the Commission on Narcotic Drugs, approve the general purpose budget and endorse the special purpose funds provided by donors (including the related programme support). The regular budget is approved by the General Assembly. The performance against the approved/endorsed budget is reported on an annual and biennial basis in statement V of the financial statements. The Board has undertaken an analysis of recent trends in the budgets submitted to the Commissions and compared them against the out-turns across the past two bienniums. The results of the analysis indicated that there are major variations in the forecasts when compared with the actual out-turns being delivered. These trends emphasize a need to improve the transparency and granularity of the reporting to the governing bodies and to enhance the internal budget monitoring process. The implementation of Umoja provides an ideal opportunity for UNODC to enhance its reporting given the improved reporting functionality that it provides.

36. As with any plan, a budget needs to be subject to regular review to reflect changes in assumptions and plans. During the biennium, the Commissions reviewed any changes to the original budgets. The budget for the biennium 2014-2015 was initially endorsed by the Commissions in November 2013. In December 2014, the Commissions endorsed the increases to the special purpose funds on the basis of the proposals put forward by UNODC for the second year of the biennium. In December 2015, each of the Commissions considered the report of the Executive Director on the consolidated budget for the biennium 2016-2017 (E/CN.7/2015/17-E/CN.15/2015/20), which included the final projections for the budget for 2014-2015. This provided the final endorsement for the budget for the biennium 2014-2015, upon which the final performance is measured and reported in statement V of the 2015 financial statements.

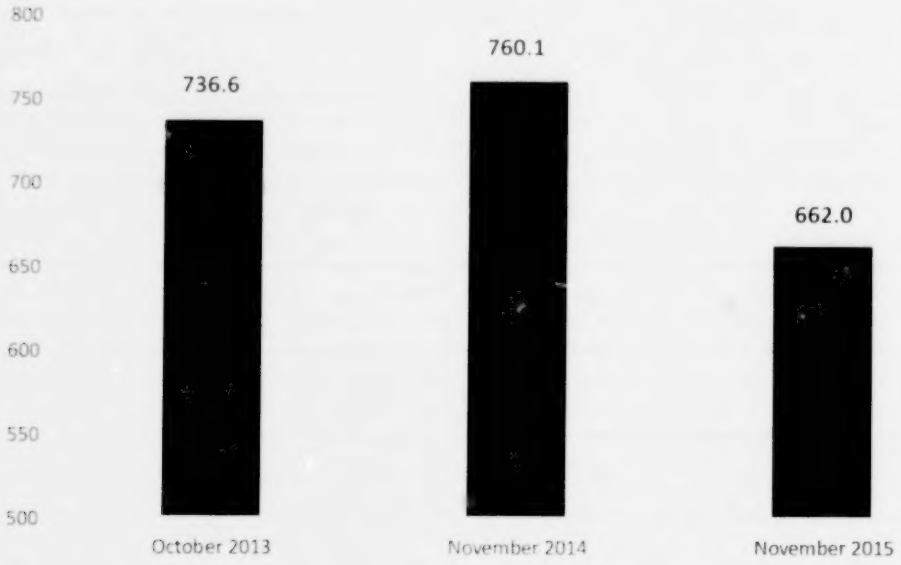
[1] The General Assembly approves the regular budget for the activities of the United Nations Office at Vienna.

37. The consolidated budget for the biennium 2014-2015 for UNODC was originally estimated at $736.6 million in October 2013 (see E/CN.7/2013/15-E/CN.15/2013/28) (2012-2013: $475.5 million). This initial budget approval was increased to $760.1 million in November 2014 (see E/CN.7/2014/18-E/CN.15/2014/21) (2012-2013: $580.0 million). The final projection reported in November 2015 was $622.4 million (see E/CN.7/2015/17-E/CN.15/2015/20); this projection has been adjusted to $662.0 million to remain consistent with the previous reported budget bases to include the regular budget relating to sections 1 and 29G[2] (see note 5 to the financial statements). The evolution of the budget requirements is set out in figure II.I below. Figures II.II and II.III show the out-turn against the revised and final projected budgets.

Figure II.I

United Nations Office on Drugs and Crime: budget for the biennium 2014-2015

(Millions of United States dollars)



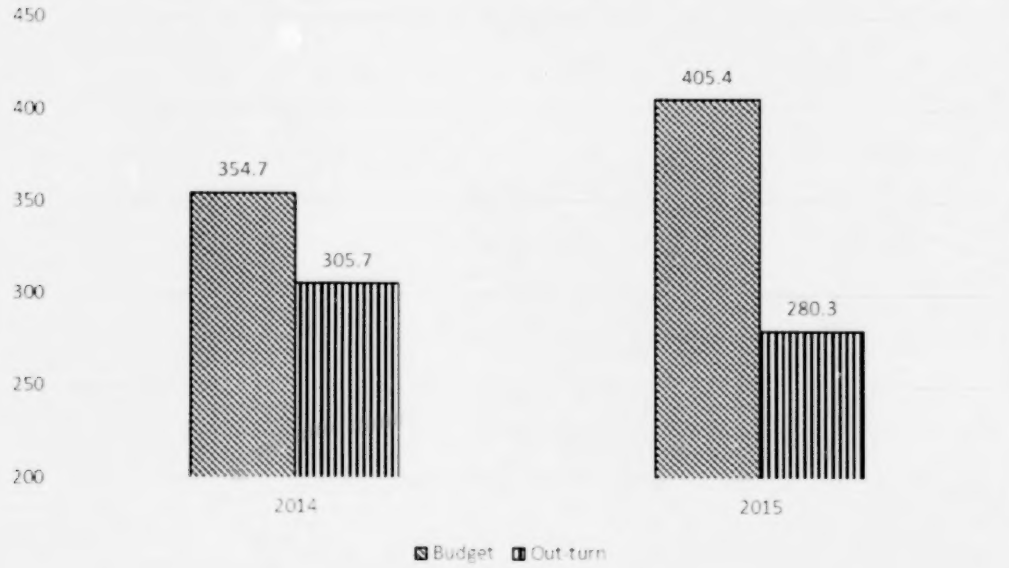
Source: Board analysis of published budget (in accordance with Economic and Social Council and General Assembly resolutions).

[2] Section 1 of the regular budget represents costs in respect of overall policymaking, direction and coordination, and section 29G represents costs relating to programme support for Secretariat entities in Vienna. These were included in the original budget ($736.6 million) and the revised budget ($760.1 million), but were excluded from the final projection ($622.4 million).

Figure II.II

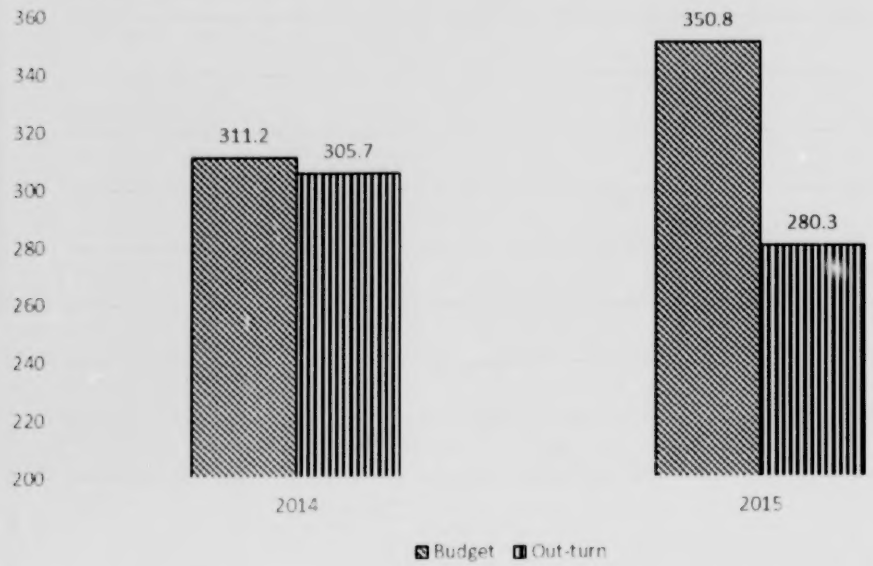
United Nations Office on Drugs and Crime: 2014-2015 revised budget estimates as at November 2014 and actual out-turn

(Millions of United States dollars)



Source: Board analysis of published budget (in accordance with Economic and Social Council and General Assembly resolutions: see document E/CN.7/2014/18-E/CN.15/2014/21, General Assembly resolution 68/248 A and document A/68/6/Add.1, chap. II, sects. 1, 16, 23 and 29G) and out-turn (in accordance with statement V of the financial statements).

Figure II.III
United Nations Office on Drugs and Crime: 2014-2015 final projections as at November 2015 and actual out-turn
(Millions of United States dollars)



Source: Board analysis of published budget (in accordance with Economic and Social Council and General Assembly resolutions: see document E/CN.7/2015/17-E/CN.15/2015/20 and General Assembly resolution 70/240 A, para. 2 (a), sects. 1, 16, 23 and 29G) and out-turn (in accordance with statement V of the financial statements).

38. The Board noted from its analysis that the final out-turn for the biennium 2014-2015 was $586.0 million, against the original forecast in November 2013 of $736.6 million. The Board undertook further analysis of the biennium 2012-2013 and noted that although the original budget of $475.5 million was revised upwards to reflect increased expenditure to some $580 million in November 2013, the final out-turn by December 2013 was some 10 per cent lower, at $523 million (an underspend of $57 million). This level of variation in the budgets across both bienniums is indicative of optimism bias. It indicates the need for a more rigorous assessment and challenge process before outline budgets are provided to the Commissions for their endorsement, and highlights the need for tighter budget forecasting during the year to inform the final revisions.

39. The November 2014 report of the Executive Director on the implementation of the consolidated budget for the biennium 2014-2015 (E/CN.7/2014/18-E/CN.15/2014/21), in which the adjustments to the original budget were identified, and upon which the Commissions' endorsements of the increases were based, did not include explanations or reasoning for the changes to the budget. For example, the special purpose fund for the drug programme increased by $18.8 million, to $323.4 million, and the special purpose fund for the crime programme increased by

$4.0 million, to $285.2 million, but it is not clear which key elements contributed to those changes. In our view, such information would be essential to allow the Commissions to make a considered challenge to the revisions before their endorsement. Such information also allows for better and richer out-turn review when assessing the biennium performance.

40. A voluntarily funded and project-driven organization has additional challenges in setting budgets, but there are measures that UNODC can take to improve the accuracy of its budgets and to use them as a vehicle to enhance accountability to its governing bodies and in management of resources. For example, the governing bodies could be provided with an indication of any optimism risks within the budgets they are asked to endorse and an analysis of the key reasons and assumptions that comprise and account for the changes between the previous budgets they were asked to endorse. This type of analysis forces greater rigour in the budget requests made by budget holders and enhances accountability.

41. The Board has noted that following the recommendations made in its previous report, UNODC has enhanced the quality of its explanations for key variances in respect of budgets and out-turn in respect of statement V of the financial statements. However, it noted that it was not until July 2016 that UNODC was able to compile these detailed variance explanations. Significant variances are identified that point to delays in project delivery, often because of external factors. In assessing them, it is clear that some of these factors could have been foreseen with improved coordination between project managers and budget holders. This again places emphasis on improving the challenge process around budgets submitted for approval and on avoiding optimism bias in the budget-setting process. This can be further mitigated by enhancing the internal budget monitoring processes within UNODC.

42. **The Board recommends that UNODC provide a greater level of detail to support the reasons for variations between original, revised and final projected budgets, and that any assumptions that might give rise to out-turn variations be highlighted to enhance oversight and accountability.**

Internal budgetary control

43. As part of the budgetary control process, UNODC currently aims to undertake a quarterly review of expenditure against budget and report the results to the Executive Committee. The purpose of those reports is to monitor budget implementation and provide early warning of potential programme overspends or underspends to enable early actions to be taken to maximize the effective and efficient use of available resources.

44. During 2015, UNODC completed reports for the first two quarters in a timely manner; however, for the third quarter, the process was merged with the performance update report to the Commissions owing to timing and resource constraints during the period of Umoja implementation. These constraints continued to have an impact through 2015 and the report for the fourth quarter, which was not produced until two months after year-end and was based on the preliminary 2015 figures available at the time. A further update to the fourth quarter of 2015 was reported to the Executive Committee in June 2016.

45. The Board reviewed the quarterly performance reports prepared for the Executive Committee for consistency, reliability and integrity and observed the following:

(a) The first two quarterly reports provided an overview of performance for the period and financial risks that the Committee should be informed of in a consistent manner;

(b) Owing to work pressures within the business arising from Umoja preparations, the third quarterly report was absorbed within the performance report of the Executive Director to the Commissions (E/CN.7/2015/17-E/CN.15/2015/20). However, that report does not provide expenditure information for the third quarter nor does it break down projected out-turn to the budget subheads. For the Committee to be appropriately informed for decision-making, the quarterly report provided at this stage lacked the necessary granular analysis of the expenditures up to that point against the budgeted position, which might have better informed the preparations for year-end;

(c) A draft report for the fourth quarter was provided in February 2016, with a subsequent update in June. This reflected the delays in obtaining the reports necessary to extract and analyse the year-end out-turn from the new system. Clearly, a delay of this nature is unusual, and it will also have had an impact on management's capacity to respond to budget implementation during 2016.

46. The recent development of the quarterly Executive Committee reports has been a useful addition to the information available for decision makers and provides a forum for senior management discussions. However, the Board has observed that the reports lack detail on variances, and there is a lack of clarity in how senior management holds programme and budget managers to account for shortcomings and addressing the problems highlighted. These could include addressing factors having an impact on delivery, or requiring the use of resources to be reprofiled to reflect the reality of the business. This is particularly true of projects in Nigeria and Afghanistan that are highlighted within the statement V variance analysis in note 5 to the financial statements. The Board considers that a more regular financial review, with clear attributable actions, would strengthen financial management and provide the Financial Resources Management Service with greater visibility of the overall use of the budget.

47. The availability of more consistent and detailed information through Umoja should serve as a basis to improve the frequency and content of budget review, and it is important that field offices and programme managers use reporting functionality to review their data on a regular basis. If the quality of information obtained from the field improves, management will have better information to inform its decisions. Better data will enable the Financial Resources Management Service to introduce and operate a central and risk-based review of monthly budget reports, strengthening the challenge and accountability processes.

48. **The Board recommends that greater rigour be imposed on budget holders in supporting the assumptions underpinning the quality of their proposed budgets and expenditure profiles. There is scope for the Financial Resources Management Service to meet more frequently with the UNODC directors, as well as for field office programme managers to confirm, on a risk basis,**

whether the analysis of budgeted spend is relevant to reinforce the accountabilities for the use of allocated resources, to support their decision-making and to assess the reasonableness of the proposed budgets.

49. **The Board also recommends further improvement in the quality of the analysis of budget variances reported to senior management; this should include clear and specific actions for budget holders to reprofile budgets where appropriate and be reported more frequently.**

3. Full cost recovery

50. In 2014, UNODC launched an initiative to begin the implementation of full cost recovery, which aimed to ensure that programme funding covered all the directly attributable costs that related to programme implementation. The aim was to enhance transparency and consistency and encourage a deeper understanding of costs, which could then be used to drive the improved efficiency of operations. In its previous report, the Board examined the progress being made in implementing full cost recovery and highlighted the importance of a better understanding of costs to the long-term sustainability of UNODC operations.

51. The Board notes that full cost recovery has become focused around debates about sustainability of operations in various locations, rather than as an exercise to accurately identify and consistently report on the nature of the costs incurred (ensuring that UNODC projects aim to cover their full costs). It is important that focus be maintained on identifying costs at the initial stages, and that once reliable and consistent data have been compiled, they can then be used to inform project plans and costings and inform management's decision-making. The Board considers that the identification of full costs and a transparent reporting of this is critical to sound financial management; at present, UNODC is some way short of having this information to support its decision-making and to build a basis for sustainable operations.

52. The Board notes that the Senior-Level Full Cost Recovery Monitoring Committee, whose role was to oversee implementation, last met in April 2015 and has since been disbanded and its work incorporated into other senior management forums. However, the Board is of the view that this weakness creates a gap in governance over a major initiative that is critical to the organization's sustainability. A more dedicated governance framework would provide better assurance to the Executive Committee and donors on the delivery and oversight of the initiative and provide a more specific forum for assessing its impacts and the achievement of the initiative's goals. The Board is of the view that the project governance around such a major initiative should be strengthened.

53. UNODC originally committed to fully implementing full cost recovery by 2015; this is now planned to be completed in December 2017. As of May 2016, progress has been much slower than expected; 7 of the 10 offices surveyed by the Board considered that they had fully implemented full cost recovery in line with transitional arrangements, but more detailed data indicate that successful implementation remains a significant challenge (see table II.3). UNODC forecasts that full cost recovery rates will increase from an average of 4.5 per cent in 2014-2015 to 7.7 per cent in 2016-2017. There are notable in-year changes; for instance,

one operation's rate is forecast to increase from 2.5 per cent in 2014-2015 to 11.5 per cent in 2016-2017, and another to decrease from 14.0 per cent to 4.8 per cent.

Table II.3
United Nations Office on Drugs and Crime: approved 2014-2015 budgeted full cost recovery rates for field offices

	2014-2015 final budget	*2016-2017 initial budget*
Minimum rate	0.6 per cent	2.6 per cent
Maximum rate	21.9 per cent	48.5 per cent
Overall average full cost recovery	4.5 per cent	7.7 per cent
Number of field offices with full cost recovery rate < 10 per cent	4	9
Number of field offices with full cost recovery rate > 5 per cent	13	4

Source: UNODC data.

54. The Board recognizes that directly attributable costs in a specific location will vary, for instance, owing to the office structure, programme volume or security concerns. The Board highlighted in its 2014 report the need for an assurance framework to ensure that costs were being classified consistently, and a number of previous recommendations in this area remain outstanding. Improving the oversight of the full cost recovery process would increase the confidence of project staff who may feel threatened by the exercise, and would increase the confidence of donors that the level of costs they are asked to fund are appropriately substantiated against the UNODC full cost recovery framework. At present, the Board is unable to assess whether the full cost recovery assessments performed have been subject to appropriate review processes, given that the demands on the time of UNODC staff in 2015 prevented consistent documentation.

55. UNODC is currently developing a tool to closely monitor full cost recovery rates and their impact at the field office and organizational level. When implemented, the tool will provide an opportunity to generate relevant information for senior management regarding full cost recovery implementation and will help to improve oversight and review of the outputs from full cost recovery exercises. The Board considers that the engagement of the Office of Internal Oversight Services (OIOS) to review the tools and the initiative would provide greater confidence to the users of full cost recovery and to donors.

56. The concept of full cost recovery represents a significant change in the culture of financial management, providing a more granular focus on the costs of operations and the extent to which they are covered by the donor contributions. Making costs more visible provides management and donors with an opportunity to more effectively assess the resources used in UNODC operations and greater certainty over how the operations can be effectively funded in a sustainable manner. During 2015, the impacts of the initiative were reduced by funding projects centrally where full cost recovery rates were not covered by donor contributions. This enabled some operations to be maintained despite a higher full cost recovery base. However, in the long term, such subsidization cannot be sustained.

57. A better understanding of costs will help to drive efficiency. In its survey of country offices, the Board asked for examples of how offices focused attention on finding efficiencies in their operations. The survey reported many different ways in which offices had identified efficiency savings, from reducing staff and improving organizational design to better use of office space. While the Board recognizes that these activities can bring benefits, UNODC only demonstrated how this translated into quantifiable savings in a small proportion of cases reviewed. For instance, one operation had reduced the number of service contract positions across a region and was able to demonstrate that this saved $300,000 in 2015. The identification of quantifiable savings measures provides a greater measure of efficiency and can be used to share examples of good practice with other country operations. On the whole, the Board considered that there was scope for UNODC to develop a more systematic approach to identify and document its efficiency savings. Efficiency measures would serve to minimize the indirect and programme support costs of its operations.

58. **The Board recommends that UNODC continue with the implementation of its full cost recovery initiatives and use the information to build a more systematic approach to efficiency activities, to enable their success to be measured and to evaluate the benefits of individual savings measures. UNODC could then use the results of a more systematic process to provide a platform for field offices to share successful efficiency measures across its operations.**

D. Strategic framework, delivery and reporting

59. Project delivery is central to UNODC achieving its aims and in attracting donor funds. The Board reported that there has been a reduction in funds received from donors and that project delivery has been well below budgeted levels. It is important to retain donor confidence by demonstrating that its projects fit its strategy, that progress and changes to projects are properly controlled and that reporting to donors is timely and appropriate. The Board undertook a survey and a review of project documentation and identified a number of areas where UNODC can build upon current arrangements.

1. Strategic alignment of projects

60. UNODC resources are targeted towards the achievement of the objectives endorsed by its Commissions. Project activity should serve to meet the aims set by the Commissions. UNODC has developed a broad set of strategic objectives, but currently has no mechanism to report overall performance against them. Its systems do not readily provide a holistic picture of progress against its strategic objectives, which makes it challenging to assess and monitor overall performance. UNODC produces annual reports at the regional and country levels, in which it lists outcomes by subprogramme. Its thematic annual reports contain results by programmes and projects, but not by subprogramme. This results in a fragmented reporting structure, making it difficult to fully understand which strategic objectives are being met and where the gaps against expected performance exist. UNODC needs to continue to refine its (draft) performance measures to ensure that they relate to the main expected accomplishments but are also able to reliably measure

outcomes (not just outputs), efficiencies and the cost-effectiveness of delivery. The Board is aware that more work is being done to make them more results-based.

61. UNODC has worked to reduce the number of "expected accomplishments", from 66 (for 2012-2015) to 27 (for 2016-2019). It has also sought to improve its reporting framework by restructuring performance indicators around its nine thematic subprogrammes.[3] The new (draft) set of indicators seeks to capture progression; the indicators are less static and descriptive than those used previously, where baselines and targets were not always apparent. However, the UNODC draft standard performance indicators remain of variable quality. For example, the three new indicators for the "Countering transnational organized crime and illicit drug trafficking" subprogramme are all quantitative (namely, the number of coordination meetings, the number of regional initiatives to combat organized crime and trafficking and the number of policy papers developed), but none capture the quality, for example, what meetings achieve in terms of increased productivity, capacity or cooperation. These measures should be aligned with project reporting to enable a clear link between the strategic aims and the projects being delivered by UNODC.

62. The majority of projects (7 of 10) that the Board reviewed had a very broad range of performance indicators, outputs and outcomes, with limited emphasis on cost efficiency or cost-effectiveness. Consequently, it is difficult to understand how a project's value for money could be measured effectively. UNODC can do more to ensure that projects clearly demonstrate their alignment with the strategic aims and performance measures for UNODC as a whole. The Board also noted the lack of qualitative indicators to match quantitative ones, with such indicators defined on a project-by-project basis. One regional office has developed a system to measure the effectiveness of capacity-building and the extent to which it leads to effective outcomes.

63. The Board reviewed the indicators as proposed in March 2016 and identified a number of areas for improvement, including:

(a) Prioritization of the expected accomplishments and indicators at the organizational level;

(b) Greater emphasis on measures of efficiency or cost-effectiveness;

(c) Clearer alignment and relevance to each of the nine subprogramme strategies;

(d) Inclusion of a results chain linking project delivery to expected accomplishments;

(e) Increasing the number of outcome measures, and in doing so placing more emphasis on measures of quality of provision.

[3] Countering transnational organized crime and illicit drug trafficking; Prevention, treatment and reintegration, and alternative development; Countering corruption; Terrorism prevention; Justice; Research and trend analysis; Policy support; Technical cooperation and field support; and Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board.

64. **The Board recommends that UNODC develop its standard performance indicators to ensure that they allow programmes to be properly measured at an operational and strategic level.**

2. Project oversight and review

Programme Review Committee

65. The Programme Review Committee meets regularly to review new projects or project revisions. It has recently outlined its role, which is to ensure strategic alignment with programmes, promote integration of UNODC mandates, especially with regard to the Sustainable Development Goals, and review issues relating to the quality, effectiveness and sustainability of new and ongoing programmes.[4] The Board was informed by management that it is common for a decision on approval to be made prior to the Committee meeting; this undermines the benefits of such a scrutiny function. There may be scope for UNODC to consider segmenting the approvals process so that greater consideration is given to higher value and higher risk projects if the approval burden is currently too great for the Executive Committee.

66. The Board also noted that the UNODC approval process did not routinely take account of previous performance against objectives. For 2015, the Board was informed by management that no submissions for new projects or revisions had been rejected. Project owners routinely request substantive changes without an evaluation of existing delivery or an assessment of performance in terms of cost-effectiveness or efficiency. In 2015, of the six projects requesting a substantial revision by the Programme Review Committee, three had been evaluated recently prior to submission. If UNODC is to improve the accuracy of its forecast delivery and improve budget utilization, it is important that such factors be taken into consideration at the approval stage.

67. **The Board recommends that UNODC project teams clearly articulate the delivery record of the project before seeking additional approvals for the project, so as to strengthen the confidence of the approvals committee that any revisions are reasonable and supported by clear evidence.**

Project revisions

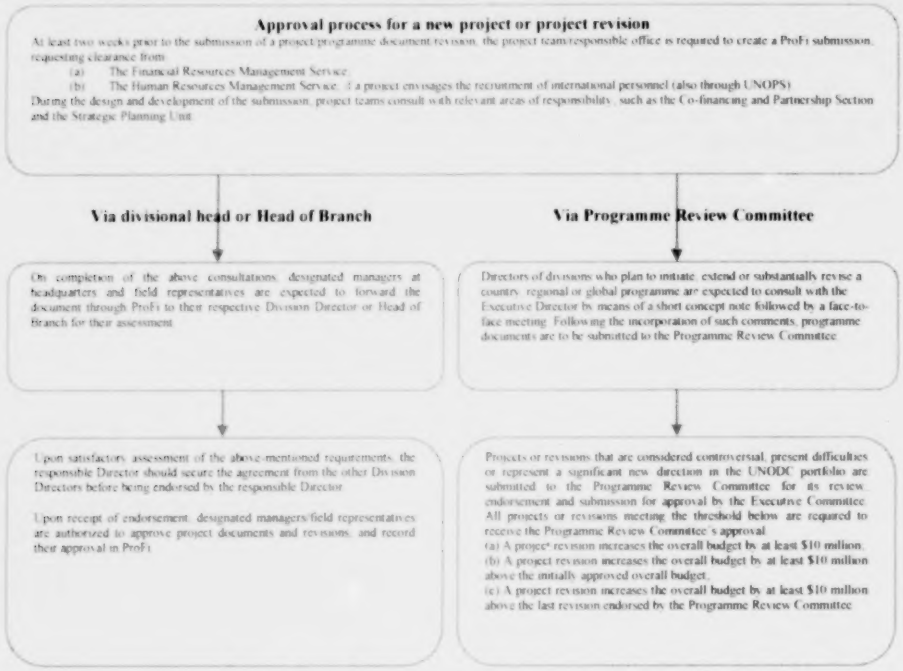
68. The Board reviewed how UNODC challenges and approves changes to projects. Its project portfolio is often subject to change, and the scale of revisions is substantial. UNODC has a process to approve new projects or revisions to existing ones (see figure II.IV). The ProFi system should be used to record all revisions and steps taken by teams and approvers. In 2015, 69 per cent of all projects underwent a revision.[5] The vast majority of revisions were reviewed and approved at the Director level (163 submissions). In addition, the Programme Review Committee reviewed and approved six further revisions. The Office's high level of earmarked funding means that, at each stage of revision, management is restricted in reallocating

[4] Internal memorandum sent to the Executive Director in December 2015 explaining the role of the Programme Review Committee (previous instruction was from June 2010).

[5] In 2015, UNODC delivery comprised 246 projects. A total of 169 submissions for revision were submitted to divisional directors or the Programme Review Committee.

funding between subprogrammes or to other projects. Failure to deliver can result in funds being returned to donors.

Figure II.IV
Approval process for new projects or project revisions


Approval process for a new project or project revision
At least two weeks prior to the submission of a project/programme document/revision, the project team/responsible office is required to create a ProFi submission, requesting clearance from:
(a) The Financial Resources Management Service;
(b) The Human Resources Management Service, if a project envisages the recruitment of international personnel (also through UNOPS).
During the design and development of the submission, project teams consult with relevant areas of responsibility, such as the Co-financing and Partnership Section and the Strategic Planning Unit.
Via divisional head or Head of Branch
Via Programme Review Committee
On completion of the above consultations, designated managers at headquarters and field representatives are expected to forward the document through ProFi to their respective Division Director or Head of Branch for their assessment.
Directors of divisions who plan to initiate, extend or substantially revise a country, regional or global programme are expected to consult with the Executive Director by means of a short concept note followed by a face-to-face meeting. Following the incorporation of such comments, programme documents are to be submitted to the Programme Review Committee.
Upon satisfactory assessment of the above-mentioned requirements, the responsible Director should secure the agreement from the other Division Directors before being endorsed by the responsible Director.
Upon receipt of endorsement, designated managers/field representatives are authorized to approve project documents and revisions, and record their approval in ProFi.
Projects or revisions that are considered controversial, present difficulties or represent a significant new direction in the UNODC portfolio are submitted to the Programme Review Committee for its review, endorsement and submission for approval by the Executive Committee. All projects or revisions meeting the threshold below are required to receive the Programme Review Committee's approval.
(a) A project revision increases the overall budget by at least $10 million;
(b) A project revision increases the overall budget by at least $10 million above the initially approved overall budget;
(c) A project revision increases the overall budget by at least $10 million above the last revision endorsed by the Programme Review Committee

Source: Board review of the UNODC Programme and Operations Manual.
Note: The above is a summarized version of the approval process covering thematic, global, regional and country-led projects.
Abbreviation: UNOPS, United Nations Office for Project Services.

69. The majority of submissions for revision relate to a significant change in either time or budget (see table II.4). Project revisions or new projects need initial clearance from the Financial Resources Management Service and, where staffing changes are involved, the Human Resources Management Service prior to submission. Other internal clearance is required, depending on project characteristics. Once submitted, the Division for Operations reviews the appropriateness of the steps taken by project teams in clearing their submissions.

Table II.4
Project revisions approved by divisional directors during 2015

Activity	*Data*
Submissions involving a budget increase	50 cases involved a budgetary change. Half of these requests (26) were to increase the budget by more than 30 per cent.
Submissions requesting an extension	135 cases (83 per cent) relate to extensions to project duration. Of these, 80 per cent submitted an extension for 12 months or more (and 27 per cent for two years or more).

Source: Board analysis of the UNODC ProFi system.

70. In 2015, the overall average time taken from the date of the first draft of a submission was created to the date of it being approved was 65 days. This compared well with the target of 12 weeks (84 days) for the time between the point at which the Executive Director endorses the idea for further development to the point at which overall approval is given.[6] From the review of the ProFi system, the Board was unable to determine the actual time taken for each stage of clearance, and UNODC does not routinely collect data on this. Furthermore, the Board found 28 requests in which the date of submission was omitted. The Board was informed that it is common for the initial submissions to be rejected and sent back to the project teams for resubmission. This in turn will affect the time recorded on the system for approval.

71. Eight of the 10 offices the Board surveyed were satisfied with the revisions process, although there were some isolated concerns over approvals, relating to the amount of consultation required, and some significant delays in approvals. The Board reviewed 10 current projects in detail, including the associated requests for a revision throughout their life cycle. In each case, offices gave a justification for the revision, which translated into the intended additional activity and outcomes.

72. **The Board recommends that UNODC further explore the administrative and substantive reasons for the rejection of project plans and use this information to inform improvements to the guidance for project teams. Furthermore, UNODC could monitor performance against target times for each stage of the clearance process to provide better information to identify any inefficient elements.**

Project delivery

73. The Board reviewed 10 projects to assess delivery and performance. All projects reviewed were progressing and no projects had been abandoned. All projects had been extended from their original end date, with an average extension of 30 months. One project that started in 2003 had been extended 17 times, with its original end date moving from 2005 to 2017. Another project that started in 2008 had been extended 15 times, and its end date moved from 2010 to 2020.

[6] As defined in the UNODC Programme and Operations Manual.

74. All 10 projects reviewed had experienced delays in the implementation of activities, with the primary reasons being delays/shortage of funding and difficulty in engaging stakeholders. One project that started in 2013 and was expected to be completed in 2016 is experiencing several significant issues and still has only 11 per cent of funding secured. Only 3 out of the 10 projects identified a shortage in funding from donors as a risk, and only one of those had described mitigation actions against this risk.

75. UNODC frequently has funding shortfalls at the point of approval for its projects. Five of the 10 projects reviewed in detail currently have funding shortfalls, some of which are significant in scale. In 2015, 108 out of 163 revision submissions to divisional directors (66 per cent) had a funding shortfall at the time of submission. Thirty-four per cent of the projects had a shortfall of at least 20 per cent of the proposed revised budget. These findings echo the Board's observations in respect of optimism bias in the budgeting process and addressing these risks appropriately will serve to enhance the sustainability of the UNODC project portfolio. UNODC faces challenges in managing funding shortfalls, which creates the risk that projects do not achieve their objectives, particularly because decreasing general purpose funding means that flexibility within the budget will be limited. If funding fails to be secured, UNODC can end up resourcing cost structures that have been created, for which no funding will be available to sustain them.

76. **The Board recommends that UNODC enhance the accountabilities for the management of funding risks within projects, requiring teams to specify how their funding gap will be filled, to identify the degree of project and cost risk and what mitigations can be taken.**

3. Reporting to donors

77. Over 90 per cent of UNODC funding comes in the form of voluntary contributions from the donor community. Under the terms of each donor agreement, UNODC agrees to provide reports (including regular financial reports). Sound financial reporting of project performance is critical to retaining donor confidence and to providing oversight on the progress of projects and their rate of implementation. It is critical, therefore, that information is relevant, reliable and timely. Umoja will offer more opportunities to provide better and more qualitative data from a single source of information. In time, this should improve the quality of reporting and the efficiency of its production, but it is too early to see these benefits flowing in 2015. Indeed, donor reporting has been delayed and problematic in 2015 as a consequence of the implementation and capacity pressures. The Board sought to identify the number of reports due against those delivered, but management was unable to provide the data to enable this analysis owing to weaknesses in data collection and reporting functionality. The Board has considered various aspects of donor reporting and identified areas for improvement.

Financial and performance reporting to donors

78. The Board has noted that UNODC is still trying to assess how it will utilize Umoja to provide the information it needs for donor financial reporting purposes. As at June 2016, the Board had confirmed with UNODC that as yet there was no standard suite of reports or data sets from Umoja that could be used to underpin

financial reports to donors. During its audit visits, the Board noted that financial reports that had been finalized during April 2016 were subsequently changed, and by the time of the Board's audit in June they had still not been sent to donors. Processes remain largely manual data extractions, which are time-consuming and can give rise to errors.

79. The Board's review of donor reporting has found that there is no clear process that identifies, in advance, those donor agreements requiring interim financial reports, a target date for providing the interim and final reports or a responsible officer for collating the reports required each year. Furthermore, the Board was unable to identify a clear set of "rules" by which expenditure could be defined and drawn from the systems. This prevents UNODC from obtaining a clear picture of resource use; because each report is different, it makes the processes for compiling them less efficient. The Board takes the view that more needs to be done to make donor reporting more systematic and consistent and that there would be benefits to having a central focal point to ensure the quality and timeliness of donor reporting. This will ensure that UNODC manages any risks to donor confidence arising from inaccurate or late reporting.

80. The Board considers that UNODC could do more to try to shape the nature, content and timing of donor reporting requirements so that they could better reflect the workflows of UNODC and internal reporting requirements. This would serve to reduce the amount of bespoke activity, often at business-critical times, which can have an impact on both quality and capacity. UNODC also needs to better prepare for donor reporting cycles and flexible capacity to ensure that it can meet the reporting demands on a timely basis. The Board also notes an opportunity for UNODC to better align the timing of donor reporting requirements with internal reporting cycles and workflows.

81. **The Board recommends that UNODC consider a strategy to deal with any financial reporting backlog and identify and address any gaps in reporting functionalities that are creating delays in the reporting timeline.**

82. **The Board recommends that UNODC centrally monitor the reporting requirements of donors and develop a methodology for donor financial reporting that creates a consistent reporting framework that is aligned to the information that can be produced efficiently from its systems. Furthermore, UNODC should do more to influence donors in agreeing a financial reporting framework aligned to internal reporting cycles and to follow as closely as possible a common reporting template.**

Programme and project monitoring

83. The Board reviewed the UNODC reporting framework for monitoring project delivery, with project teams producing quarterly performance reports alongside annual and semi-annual progress reports. All 10 projects in the sample reported progress using the standard performance reporting templates and completed them to the required frequency. However, the structure and content of progress reports could be enhanced. Reports are narrative-heavy, and the results and outcomes reported were overly complex. This was often a function of broad objectives and an absence of measurable and quantitative targets, which can make it difficult for management

to assess overall performance against expectations and to consider the value that the project has delivered. A clearer analysis in these reports would enhance the way in which UNODC can engage donors with project success and outcomes and would help to identify more clearly replicable outputs.

84. The Board found only one project that reported performance by explicitly stating what proportion of the project had been implemented against the workplan. Given the Office's significant underimplementation, much greater rigour is needed to assess the extent of delivery, and for this to be linked back to the budget assumptions that were integrated in the budgets submitted to the Commissions. UNODC recently streamlined its project logical frameworks (monitoring documents), which should enable easier and more effective monitoring of delivery.

85. As the Board has reported previously, UNODC holds its cost and performance data separately. Within UNODC project documentation, the budget template provides a breakdown of costs, but this is not presented in a way that enables identification of unit costs. Given that there are many activities within each output, it is difficult to determine cost per activity, as there is just one subtotal for a list of activities. There is scope for UNODC to give more emphasis to programme and project managers assessing and comparing unit costs so that it has a better understanding of cost differentials and drivers. This would further support the work being undertaken on the full cost-recovery initiative.

86. **The Board recommends that UNODC consider the scope for simplifying the reporting structure, for example, by only reporting changes from the previous submissions, through better use of graphics to show progress against targets, and through the inclusion of key expenditure data to identify departures from the agreed forecasts and to highlight reasons for variances in spending and activity.**

E. Disclosures by management

1 Write-off of losses of cash, receivables and property

87. UNODC informed the Board that it had formally written off receivables balances of $17.10 million in 2015 (2014: $3.02 million), which have been charged against the special purpose funds. In addition, $5.62 million (2014: $13.26 million) of non-expendable property assets by net book value were written off in 2015, the majority of which related to assets transferred to beneficiaries on completion of project works funded by donors.

2. Ex gratia payments

88. UNODC informed the Board that there were no ex gratia payments made in 2015 (2014: nil).

3. Cases of fraud and presumptive fraud

89. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). The Board's audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

90. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention. The Board also inquires whether management has any knowledge of any actual, suspected or alleged fraud.

91. The Board has not identified any instances of fraud in its audit, and no cases have come to its attention through its testing. While an internal control framework and an OIOS programme is in place, there is currently no systematic framework to prevent, detect and report fraudulent activity and fraud risks have not been systematically considered. Consequently, the Board has limited procedures it can utilize to determine the completeness of the reported level of fraud, and believes that there is scope for significant underreporting.

92. UNODC has been playing an important role in the fight against economic crime and, as such, it is important for its reputation that it promote and demonstrate that it is proactive in respect of its own use of donors' resources. The Board considers it important that UNODC take a strong line in being proactive in its measures to report, prevent and detect fraud. As the Board's report has emphasized, Umoja offers new opportunities not only to enhance the control environment, but also to allow for greater oversight and the ability to extract and interrogate data. These new tools should be used in conjunction with the development of fraud risk assessments to demonstrate to donors the Office's commitment to preventing fraud in its own operations. The Board has noted that its recommendations made in previous years to undertake fraud risk assessments and prevention plans, enhance training on fraud prevention and enhance the use of exception reporting remain outstanding. The Board understands that work is being undertaken by the Secretariat with respect to fraud risks, but is of the view that more could be done locally, especially with the new opportunities presented by Umoja.

93. During 2015, UNODC notified the Board of one case of presumptive fraud, relating to the purchase of fuel for personal consumption; the amounts involved are being investigated. An investigation in respect of embezzlement of funds and the creation of fraudulent documentation, which was reported in 2014, was concluded during 2015 and the loss of $18,115 was fully recovered. The cases reported to the Board include only those in which the fraud, or presumptive fraud, affects UNODC directly.

F. Acknowledgement

94. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and members of his staff.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors

(*Signed*) Sir Amyas C.E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

Annex

Status of implementation of recommendations

1. As at 30 September 2016, of the 27 recommendations made for 2014 and previous years, 6 (22 per cent) had been fully implemented, 11 (41 per cent) remained under implementation, 9 (33 per cent) had been superseded or closed and 1 (4 per cent) had not been implemented.

2. There has been positive progress overall across many of the recommendations still marked as "Under implementation", including in areas of gaining an accurate picture of progress information on projects and programmes against milestones; and better data on the volumes and value of field office procurement.

3. The table below sets out the status of all of the Board's previous recommendations.

Status of implementation of the Board's previous recommendations

Report reference	*Summary of recommendation*	*Administration's comments on status – September 2016*	*Board's comments on status – September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/70/5/Add.10, chap. II, para. 9	The Board recommended that management embed the financial disciplines required by IPSAS across its operations, and that staff engage in the maintenance of timely and accurate financial records and fully utilize the better quality financial information outputs to support its decision-making.	Implementation of the recommendation is in progress. Estimated completion date: September 2017. Commencing September 2016, the Financial Resources Management Service is organizing sessions to readdress: (a) IPSAS objectives and policies; (b) the delivery principle; (c) the accruals and cut-off requirements; and (d) period-end activities. These sessions are adapted to Umoja processes and will emphasize solutions for issues encountered during the 2015 first closing entries within the Systems, Applications and Products in Data Processing system. Audience: finance users, certifying officers, requisitioners and goods-receiving officers (for both the United Nations Office at Vienna and UNODC). Date of completion of the sessions: December 2016. Furthermore, the Financial Resources Management Service will adapt the	The Board's audit of 2015 has identified areas where there remains scope for UNODC to better embed the IPSAS culture, in particular, to ensure greater understanding of the importance of the delivery concept and greater discipline in documenting accounting judgments around income recognition, accruals and obligations. In this first year of Umoja, some aspects of the accounts, such as accruals and obligations, were not recorded in detail through the system and required manual returns from the field. The Board has noted management's commitment to learn lessons and respond to this recommendation, which remains under implementation.		X			

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
		2016 year-end closing instructions, in consultation with the Office of the United Nations Controller, to ensure that they include measurable compliance objectives and timelines. An assessment and lessons learned exercise will take place after the 2016 financial statements are issued to address further needs.						
A/70/5/Add.10, chap. II, para. 18	The Board recommended that UNODC develop fraud risk assessments to identify areas where it is most susceptible to fraud within its operations. These should be used to inform the development of risk mitigation plans to focus training and targeted exception reporting to detect cases of fraud.	Implementation of the recommendation is in progress. Estimated completion date: October 2017. With the introduction of Umoja, certain contracting and payment processes are being monitored holistically through standardization and consolidation. This enhanced both the preventive and detective controls. The Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat was issued in September 2016. In line with the Framework, UNODC is currently establishing action points for dissemination, awareness, support and monitoring of the Framework. Enterprise risk considerations will also be evaluated. In addition, in September 2016, a task force on common definitions related to fraud and implementing partners was started by the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination, with UNODC participation. This task force will provide a common definition of fraud and presumptive fraud across all United Nations system organizations.	The Board understands that work is being undertaken in New York to develop these tools, but considers that more could still be done locally to assess the specific risks to UNODC. The Board has again highlighted the need for action in its report.			X		

Report reference	*Summary of recommendation*	*Administration's comments on status — September 2016*	*Board's comments on status — September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/70/5/Add.10, chap. II, para. 22	The Board recommended that management: (a) further improve the quality of the analysis of budget variances reported to senior management and that these should include clear actions to redeploy or reprofile the budget, where appropriate; and (b) review the budget and cost allocations between the activities of the Drug and Crime Programmes to strengthen the segmental reporting within the financial statements.	Implementation of the recommendation is in progress. Estimated completion date: February 2017. A more detailed financial analysis was provided as part of note 5 to the 2015 financial statements. The report to the Executive Committee for the second quarter of 2016 also included a more granular analysis of underspend for 2015 and for 2016. A similar analysis is being prepared for the report for the third quarter, due in October 2016. Furthermore, a full cost recovery barometer, a management dashboard, is being rolled out to track key indicators (income, delivery, spending) for field offices.	The Board has further highlighted in its report the need to build upon budget reporting processes both at governing body level and internally to improve the quality of staff engagement with financial issues and to drive improved accountability. Although some reporting took place in respect of 2015, the Board considers that the variance explanations could be further developed and that reasons for changes to budgets should be better articulated. While enhancements have been made, the Board considers that the recommendation remains under implementation.		X			
A/70/5/Add.10, chap. II, para. 26	The Board recommended that management: (a) establish clear project milestones and resource plans at the local UNODC level to ensure successful transition to Umoja, especially in respect of data cleansing, so as to minimize the impact on the preparation of the financial statements for 2015; and (b) develop a clear timeline on how remaining legacy system risks will be addressed.	UNODC considers this recommendation implemented and requests the Board to close it. The Umoja deployment team in New York centrally prepared the Umoja deployment milestones for all cluster 4 entities, including for UNODC and the United Nations Office at Vienna. This included the milestones for data cleansing and other preparatory activities.	As the Board notes in the main body of its report, the preparation for Umoja and the conversion of legacy data went relatively well up to the switchover in November 2015. However, Umoja had a significant impact on the business and led to a backlog in data entry and significant manual adjustments to correct initial user data entries. As the Board reports in 2015, UNODC needs to identify problematic areas and consider the need for further focused training and to enhance guidance to					X

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
			ensure consistent application of processes. There is also scope to improve the project planning for the 2016 accounts closure process and to enhance the supporting audit trail and control account reconciliations. This recommendation was specifically related to Umoja implementation and has therefore been closed. With regard to recommendations (a) and (b), as the Board has reported, there are issues with the transition to Umoja and ensuring the functions (still) needed will be delivered and be fit-for-purpose. The Board picks these up as new points for 2015, and hence the 2014 recommendation can be closed as Umoja is live and operational.					
A/70/5/Add.10, chap. II, para. 32	The Board recommended that UNODC: (a) build on the new initiatives and develop a clear strategy to link its overall strategic aims to underlying programmes and projects, and projects should be reviewed against these objectives to ensure that they are sufficiently aligned to strategy; (b) ensure that	The recommendation has been implemented. As previously reported, the Strategic Planning and Inter-agency Affairs Unit of the Division for Policy Analysis and Public Affairs continues to run training courses on project design and approval and results-based management and project management. The course on results-based management and project management includes a session on alignment. See the two training reports for sessions conducted in Tashkent and Cairo in 2015, as well as a diagram that was used to illustrate the concept of	The Board has reviewed project documentation and templates and found that they clearly defined how the project is aligned with the strategic objectives of UNODC. In addition, the Board has reviewed descriptions of training to field offices on how to apply a results-based approach and on aligning activity to strategic objectives. This recommendation is	X				

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
	the project approval stage confirms alignment with the agreed strategic objectives of UNODC; and (c) consider improved guidance and training to reinforce the principle of alignment.	results alignment. This was included in the overall training provided and the sessions were focused on participants identifying links between their own programme outcomes and expected accomplishments in the strategic framework as well as linking to the Sustainable Development Goals.	considered implemented. To note, for this year's audit, the Board found no overarching mechanism to report holistically against strategic objectives and has made a recommendation; therefore, there is an opportunity to improve on how UNODC measures and reports on its overall performance against its strategic objectives.					
A/70/5/ Add.10, chap. II, para. 33	The Board recommended that UNODC ensure the consistent use of the standard outcomes that have been developed for each thematic area in all its programmes and projects so as to ensure alignment with strategic objectives.	UNODC considers this recommendation implemented. The Office continues to ensure that standard indicators are used for new projects and/or in project revisions of earlier projects.	The Board has reviewed the standard indicators and their adoption by project teams. The Board recognizes that the new set of performance indicators are still in draft format and has made recommendations on how they could be improved, as well as the design of projects in terms of the type and number of indicators used. This recommendation is thus overtaken by events.				X	
A/70/5/ Add.10, chap. II, para. 40	The Board recommended that UNODC: (a) utilize the improved cost data to inform strategies for funding priorities and efficiency programmes; (b) complete the roll-out of full cost recovery to projects, strengthening guidance and training support to enable staff to understand the principles and how they should be applied to	Implementation of the recommendation is in progress. Estimated completion date: December 2017. On 27 July 2016, the Financial Resources Management Service issued a new guide on the implementation of full cost recovery in UNODC. This guide supersedes the guidelines previously issued and summarizes the key principles and methods guiding application by UNODC of full cost recovery. The guide also provided an annex with essential details for implementation in Umoja. The launch of the guide	The Board has noted the delays to the implementation of the full cost recovery exercise. It remains important for UNODC to improve the consistency and accuracy of cost data. There remains a need to create an assurance framework around the cost classifications to ensure that the full cost classifications are robust and enjoy the confidence of stakeholders. The Board will continue to monitor progress.		X			

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
	project activity; and (c) introduce an assurance/review process to ensure that the costs are consistently and reliably classified across the business in line with the framework.	was followed by videoconferencing sessions with field office administrative and finance personnel to further guide field offices through the process and clarify any questions they may have. UNODC takes note of the need to implement an assurance framework on the full cost recovery roll-out, specifically on the use of the cost classifications. The framework will be defined and put in place in 2017. In the meantime, UNODC will continue to report on the status of implementation of full cost recovery to the UNODC Commissions (report on the implementation of the consolidated budget for the biennium 2016-2017 at the reconvened session in December 2016).					
A/70/5/Add.10, chap. II, para. 44	The Board recommended that, to embed an evaluation culture, individual project managers take responsibility for their projects to be evaluated. Compliance with this activity should be included in the performance appraisal system. Furthermore, the implementation rates of evaluation recommendations should be monitored by senior management.	Implementation of the recommendation is in progress. Estimated completion date: September 2017. UNODC notes that projects are evaluated every four years, in line with the UNODC evaluation policy. Projects that started in or after 2013 will be evaluated only in 2017. Directors of all divisions regularly interact with Branch and Section Chiefs on issues relating to organizational learning, including lessons learned from evaluations. While it is not mandatory to include a success measure relating to evaluation of projects in a staff member's performance appraisal, all divisions will encourage senior managers at the branch/section/unit chief levels to include appropriate	The Board is encouraged by the progress being made, but notes that for the sample of projects reviewed during this year's audit, only 2 of the 10 projects have been fully evaluated, despite all running at least since 2013. The Board has yet to see evidence of how senior management is sighted on the extent to which project evaluation is embedded, and how the data are used to drive evaluation further or how they are being embedded within the appraisal system. The Board therefore considers implementation to be work in progress.		X			

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
		information in their year-end self-appraisals.						
A/70/5/Add.10, chap. II, para. 50	The Board recommended that management: (a) complete the roll-out of the risk management process and collate the information in divisional and field registers into an organizational risk register; (b) regularly review and update the register to facilitate its use as an operational tool for decision-making across UNODC; and (c) consider whether it remains appropriate for the aggregation of the risks of UNODC and the United Nations Office at Vienna in the same register.	Implementation of the recommendation is in progress. The roll-out of enterprise risk management will be completed by the first quarter of 2017. UNODC also points out that within the context of enterprise risk management, UNODC is implementing the full cost recovery barometer, a management dashboard, with the aim of aiding managers at headquarters and in the field to monitor, analyse and address the fluctuation in the cost recovery rates. This was prioritized as one of the key risks to monitor for UNODC operations. This dashboard, launched as a pilot, is a good example of how UNODC is using the risk register in support of the decision-making process. UNODC will determine the applicability of separating the risk registers for UNODC and the United Nations Office at Vienna as part of the forthcoming second assessment review of its enterprise risk management initiative by the first quarter of 2017.	The Board has noted progress in the risk management processes of UNODC. It notes that: (a) The roll-out will be completed by the first quarter of 2017; (b) There remains scope to use the wider risk registers as tools to support decision-making processes, but this is evolving in respect of full cost recovery risks; (c) UNODC will determine the applicability of separating the risk registers for UNODC and the United Nations Office at Vienna during 2017.		X			
A/70/5/Add.10, chap. II, para. 54	The Board recommended that the Human Resources Management Service use staff surveys to canvass all staff on a wider range of human resources matters to support its management of the workforce by informing strategies for staff deployment, training and capacity.	The Staff Development Unit of the Human Resources Management Service conducted a survey to obtain feedback on the learning management system (Inspira) and learning needs for 2016. The needs analysis survey was conducted in November 2015 both in the field and in Vienna. A total of 200 responses were received (see more details in comments on para. 65).	The Board considers this recommendation to be fully implemented, but would see it as good practice for it to be repeated at an appropriate frequency across headquarters and field operations, enabling useful trend data to be analysed.	X				

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/70/5/ Add.10, chap. II, para. 57	The Board recommended that management further develop its understanding of project staffing requirements by reviewing, within the constraints of the United Nations Secretariat global staffing model, processes to headquarters and regional staffing plans, balancing an optimal use of resources between headquarters staff, field staff and grade profiles.	Implementation of the recommendation is in progress. Estimated completion date: December 2017. UNODC is a project-driven organization, and staffing costs are discussed as part of the project structure with the donor or donors. The Human Resources Management Service is consulted regularly in this process and is also approving project documents and revisions and reviewing the staffing structure and components.	The Board recognizes the interaction between the Human Resources Management Service and the project teams on staffing requirements at the stage of project approval. Its recommendation extends beyond the project level, and is more an organizational assessment. The Board recommends the review of grade profile and staff cost data across the organization, including headquarters functions, with a view to identifying opportunities for efficiency. The Board has recommended the need for a strategy to be developed for the implementation of full cost recovery and for its effect on the UNODC business model. The Board therefore would expect the Human Resources Management Service to provide data on the breakdown of staff costs to inform this plan to support scenario planning around the optimal split between headquarters and field offices.		X			
A/70/5/ Add.10, chap. II, para. 65	The Board recommended that UNODC should: (a) within the constraints of the United Nations Secretariat global staffing model, build a	Implementation of the recommendation is in progress. Estimated completion date: December 2017. While different projects, programmes and activities may require specific structures and hence staffing levels,	The Board considers that the Human Resources Management Service should be the driver of strategic matters, such as reviewing the grade balance within the organization, optimizing		X			

Report reference	Summary of recommendation	Administration's comments on status September 2016	Board's comments on status September 2016	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
	model for the optimal workforce composition, capability and training needs in a medium- and long-term staffing plan; (b) use the opportunity afforded by Umoja to improve the collection of comprehensive workforce data, and utilize this to plan recruitment and the staff and capability requirements to meet the future anticipated needs of the business; and (c) consider the re-establishment of "roving teams" within headquarters that can support field offices on a short-term basis.	UNODC will undertake a post level analysis at the organizational level and across programmes, as recommended, with the aim of better understanding grade shifts, activity costs and overhead benchmarks. This will be done with the collaboration of all UNODC divisions.	staff costs as a means to drive efficiency (as has been done in other United Nations entities). In doing so, the Board would expect the Service to assess the extent and risk of grade drift and the balance between senior and junior staff, together with the organizational staffing needs currently and the skills needed in the future (aligned to skills and capabilities required). A greater insight into and deeper understanding of the costs of its activities and services would enable the Administration to analyse and benchmark its costs to better control its administrative costs and overheads. Staff costs are significant to this. In 2014, the Board compared UNODC to other United Nations entities and the comparative data indicated a need for UNODC to review its staffing structure and inform senior managers of the results. The implementation is thus a work in progress.					
A/70/5/Add.10, chap. II, para. 71	The Board recommended that UNODC improve the quality of the data collected on recruitment and track the impact of any	Implementation of the recommendation is in progress. Estimated completion date: December 2017. While the human resources management scorecard, in which the staffing timeline is monitored, is	The Board notes that UNODC has yet to define actions needed to improve data quality, and that this process is dependent on the range of available reporting options presented in Umoja. Given		X			

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
	delays in the process on operational delivery.	fully operational, UNODC will continue to monitor and analyse the consistency of existing Inspira data. Furthermore, UNODC will also look at Umoja business intelligence capabilities to ensure that when fully operational they will improve analysis of staffing timelines.	that the timescales are unclear, the Board recommends a review of the process of data collection in Inspira (given the inaccuracies found in 2014) to verify and ensure that the data currently used for reporting is sufficiently robust to identify any delays, which have an impact on the delivery. The implementation is work in progress.					
A/70/5/ Add.10, chap. II, para. 72	The Board recommended that UNODC learn lessons from the Office of the United Nations High Commissioner for Refugees and others that use a mobility framework and ensure that the implementation of the framework is informed by their observations.	Implementation of the recommendation is in progress. Estimated completion date: December 2017. UNODC will continue to engage with other organizations already undergoing mobility and will fully observe the entities likely to be affected first when mobility takes place within the United Nations Secretariat. Along with the Office of Human Resources Management, UNODC will participate in the next round of implementation of the mobility framework in 2017, which will cover information technology posts (the information and telecommunications technology network).	The Board accepts that UNODC is dependent on United Nations Secretariat decisions, and that the business intelligence element of Umoja is not yet functional. However, the Board believes that UNODC has the opportunity to engage with human resources functions of other United Nations entities that are already using the mobility framework in order to learn from them and thus be best positioned to implement the mobility framework.		X			
A/69/5/ Add.10, chap. II, para. 20	The Board recommended that any system enhancements be coordinated to benefit both the immediate user and the corporate need. The ability to easily monitor and review financial management	Implementation of the recommendation is in progress. Estimated completion date: January 2017. UNODC now adheres to the global governance on systems development as laid down by the Office of Information and Communications Technology at United Nations Headquarters and the Umoja project.	This remains under implementation as Umoja continues to embed after 2015 and as the next release is scheduled for 2018.		X			

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
	information centrally is severely limited by the functionality and fragmentation of the systems. At the same time, UNODC operates a highly decentralized system of controls.	As such, changes are evaluated, prioritized and developed centrally. Within this framework, UNODC is taking an active role in requirements gathering, acceptance and testing of Umoja Extension 2, due in 2018. Also within the information and communications technology governance, the United Nations Office at Vienna/UNODC developed the Umoja programmatic reporting dashboard, due to be launched in September 2016. The dashboard combines legacy and Umoja data and allows donors and programme managers to monitor the performance of their contributions. It will be used across the United Nations Secretariat. UNODC would recommend that the observation be considered "implemented" once the dashboard is successfully delivered.						
A/69/5/Add.10, chap. II, para. 26	The Board recommended that UNODC strengthen its quarterly review activity so that validity and accuracy of unliquidated obligations are assured, and consider increasing guidance and oversight in this area to better ensure commitments are updated timeously.	The recommendation has been implemented. The review of unliquidated obligations intensified with the transition to Umoja. Special messages were issued to all users in order to ensure diligent review of unliquidated obligations in preparation for transition to Umoja (message of the day of 22 July and 3 August 2015). In addition to the 2015 closing instruction, a special message was issued on 8 January 2016 on the review of outstanding pre-commitments, purchase orders, purchase requisitions, travel commitments and fund commitments in Umoja.	The Board pointed out in 2014 that while the process had improved and a good annual process had been adopted, it was too early to say whether the monitoring process was embedded. This remains the case as the 2015 year-end unliquidated obligations review process was badly hampered by the move to Umoja and the Board's 2015 audit found errors in the original 2015 year-end unliquidated obligations population presented for audit.				X	

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
			This recommendation has been superseded by the observations arising from the 2015 audit.					
A/69/5/Add.10, chap. II, para. 34	The Board recommended that UNODC develop solutions for IPSAS implementation and embed timely data entry and validation requirements into the business as a matter of urgency.	The recommendation has been superseded and should be closed because of Umoja implementation.	While the 2015 financial closure and accounts production processes were again highly manual, the point has been captured in the wider financial management recommendations for 2015, and thus this recommendation can be closed.					X
A/69/5/Add.10, chap. II, para. 38	The Board recommended that, by July 2014, UNODC finalize its organizational risk register by prioritizing the risks and identifying mitigating actions. The register should be reviewed regularly by the senior management team of UNODC, and action taken to mitigate any risks that arise.	The recommendation has been implemented and UNODC requests the Board to close it. Enterprise risk management reports covering information on both the United Nations Office at Vienna/UNODC register and the divisional registers are being prepared quarterly and are submitted to senior managers and the Executive Committee for consideration.	The Board has updated progress made in its current report and considers that there remains scope to formalize the engagement of senior management in the corporate risk process. The recommendation has been superseded.				X	
A/69/5/Add.10, chap. II, para. 46	The Board recommended that, on a regular basis, UNODC analyse the reasons for project revisions and extensions in order to assess whether the current project-based approach is the most efficient way to secure funding to deliver its	The recommendation has been implemented. With regard to approvals (of project revisions) at UNODC headquarters, most projects that follow the direct approval modality are processed within one week. Delays occur when there are quality control issues.	The Board has reviewed evidence of the scrutiny surrounding the rationale for a project revision and understands that such revisions are business as usual for how UNODC operates. The Board has made further recommendations around the approval process; this				X	

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
	outcomes and to determine the scope to improve project planning.		recommendation has therefore been overtaken by events.					
A/69/5/Add.10, chap. II, para. 58	The Board recommended that UNODC review current reporting requirements, both for internal purposes and for donors, to determine whether there is a more economical way to carry out such reporting, for example, by streamlining or rationalizing reporting requirements or by minimizing the input required by project staff.	The implications of Umoja on reporting are still under review.	The Board has reviewed existing reports and found opportunities to make them clearer and easier to follow, enabling better oversight. It has made a recommendation for this year on this matter. Therefore, the implementation of this recommendation has been overtaken by events.				X	
A/69/5/Add.10, chap. II, para. 75	The Board recommended that UNODC enhance its framework for the engagement of external parties.	Implementation of the recommendation is in progress. Estimated completion date: December 2017. The Internal Audit Division of the Office of Internal Oversight Services (OIOS) has included a review of the Framework on the Engagement of External Parties in its 2017 preliminary audit workplan for UNODC. It is proposed that the review will take place in the first half of 2017. In addition, in September 2016, a task force on common definitions related to fraud and implementing partners was started by the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination, with UNODC participation. This task force will provide a common definition of external	This recommendation is under implementation; UNODC has commissioned OIOS to review the Framework on the Engagement of External Parties and its impact, in particular, whether it sufficiently accommodates the different types of external parties, such as government partners. The Board will monitor the outcome and any changes arising from the review.		X			

Report reference	*Summary of recommendation*	*Administration's comments on status – September 2016*	*Board's comments on status – September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
		partners across all United Nations system organizations.						
A/69/5/Add.10, chap. II, para. 77	The Board recommended that UNODC, in particular its Division for Operations, monitor compliance with the framework for the engagement of external parties and, by July 2015, analyse whether its introduction has resulted in any significant changes in the pace or scope of project delivery.	As mentioned in the update on the recommendation above, the Framework on the Engagement of External Parties has been revised and implementation is ongoing.	This recommendation has been overtaken by events following findings for the 2015 audit, which led to the recommendation for the Framework on the Engagement of External Parties to be evaluated independently.				X	
A/69/5/Add.10, chap. II, para. 82	The Board recommended that UNODC identify a means to secure assurance that field office procurement is being undertaken in accordance with the procurement rules of UNODC and the United Nations Office at Vienna.	The recommendation has been implemented. Both the UNODC country office in Nigeria and the Regional Office for Central America and the Caribbean in Panama now have delegation of procurement authority of $40,000. In addition, the Procurement Unit has hired a staff member based at the Regional Office to oversee procurement of a large construction project. This Procurement Officer has delegation of procurement authority of $100,000. Training was also conducted in Nairobi in June 2015. In addition, the roll-out of Umoja resulted in substantial training efforts. In October 2015, representatives from 15 field offices came to Vienna for Umoja-related procurement training. During November and December 2015, additional videoconferences were held with field offices. Another round of Umoja distance learning training related to procurement for field offices is being planned for 2016.	The Board has reviewed the instruction to field offices and the associated training activity, and is encouraged by the progress being made. It considers this recommendation to be implemented. The Board maintains the view that headquarters needs continued assurances that procurement is being conducted in line with United Nations Office at Vienna and UNODC rules. Umoja will provide greater visibility for the centre to monitor procurement compliance in the field, together with better systems to control the authorization and approval levels.	X				

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
		Also, on 14 December 2015, the Procurement Unit issued revised requirements for obtaining delegation of procurement authority, which are now more stringent, requiring additional Umoja-related courses to be completed and also requiring the buyers, who will function under the supervision of the holder of delegation of procurement authority, to have training also. On 26 February 2016, existing holders of delegation of procurement authority were advised of the new requirements and were given until 31 May 2016 to complete any additional training and to submit their certificates. See copies of the e-mails sent out with the new requirements.						
A/69/5/Add.10, chap. II, para. 85	The Board recommended that UNODC determine if, as a result of inadequate staffing, any field offices are not applying appropriate separation of duties, in line with good procurement practice.	The recommendation has been implemented. Change has been brought about by Umoja. User access mapping rules of Umoja prohibit a person from holding both the certifying officer role (SA 07a) and the procurement role (SA 07b). This has required field offices to restructure themselves. In smaller offices, the role of certifying officer tends to be prioritized, in which case UNDP or the United Nations Office at Vienna Procurement Unit provide support for procurement. Fourteen field offices now have delegation of procurement authority. Separation of duties is now being enforced.	The Board agrees that Umoja offers significant new opportunities to ensure separation of duties and oversight. While the Board considers this recommendation closed, in the 2015 report it recommends better use of exception and monitoring reports to provide ongoing assurance and to demonstrate proactive monitoring of the control environment. These processes are dependent on the continued maturity of reporting functionality and on user familiarity.	X				

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/69/5/Add.10, chap. II, para. 87	The Board recommended that field offices work with UNODC headquarters to develop and maintain a formal record of vendor performance that can be easily drawn on in future procurement exercises.	The recommendation has been implemented. The mechanism in place for vendor performance evaluation is described in chapters 15.2 and 15.3 of the United Nations Procurement Manual. Vendor performance report templates released for use by requisitioners in United Nations Secretariat organizations are provided in chapter 15.2 of the Procurement Manual. The automated vendor performance report referred to in previous comments is no longer in use. This was part of the erstwhile procurement tracking system, which duplicated many of the tasks now performed in Umoja and was taken out of service on 9 November 2015. A reminder of the need to conduct vendor performance reviews in accordance with established performance measurement criteria and the need to consult, whenever appropriate, with end users of contractors' goods and services was published as a "desk-to-desk message" on 1 February 2016. Desk-to-desk messages are received by all United Nations Office at Vienna and UNODC staff, including in field offices, and by other Vienna-based organizations administered by the United Nations Office at Vienna. See copy of the message.	The Board has reviewed the instruction on the need for vendor performance to be reported and considers this recommendation to be implemented. However, the United Nations family can improve how it shares information on vendor performance more widely. In discussions with the External Party Engagement Unit of UNODC, the Board found that intelligence on delivery partners used by other United Nations entities is not routinely used in the selection process of the United Nations Office at Vienna/UNODC.	X				
A/67/5/Add.9, chap. II, para. 93	The Board recommended that, by September 2012, all new project proposals: (a) clearly and succinctly define the problem that the project	Setting up contingency funds is not in line with programme/project policies, except for European Union-funded projects that have a separate line for contingency reserve. UNODC requests the Board to close this recommendation.	The Board has reviewed project documentation and found that it clearly defined the problem that the activity intended to resolve and how the project aligns with UNODC strategic					X

Report reference	Summary of recommendation	Administration's comments on status September 2016	Board's comments on status September 2016	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
	is intended to address; (b) establish a clear baseline against which to assess delivery, or provide a clear explanation of how the baseline will be established; (c) identify and document the material risks and mitigating actions, including setting aside an element of contingency within project budgets, to address unknown risks.		objectives, but only 5 of the 10 projects had established a baseline, and those without one did not explain how a baseline would be developed and at what stage. There are further improvements to be made with regard to risk management. The Board has made recommendations in 2015 that supersede this one; therefore, this recommendation's status is "Overtaken by events".					
A/67/5/Add.9, chap. II, para. 105	The Board recommended that UNODC: (a) establish a detailed methodology for evaluating the regional programme for East Asia and the Pacific; (b) use the experience to inform the methodology for the remaining regional programmes; and (c) complete the evaluations in time to inform future regional programme development.	The recommendation has been implemented. The Independent Evaluation Unit finalized the evaluation of all regional programmes (except one in South Asia, as the programme is still ongoing). Separate methodological approaches were tailored to the regional programmes in order to properly take into account the specificities of each programme. See the information provided in the document entitled "Methodologies of regional programme evaluations in UNODC", detailing the exact methodological approach for three regional programme evaluations. Further information is available in every evaluation report (published on the Unit's website). Based on those evaluations, the Unit is providing inputs regarding evaluability at the design stage of every new programme (through the Programme Review Committee). For example, the new draft regional programmes	The Board has reviewed the evaluations for the regional programmes and concurs with the UNODC assessment that the recommendation is implemented.	X				

Report reference	*Summary of recommendation*	*Administration's comments on status September 2016*	*Board's comments on status September 2016*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
		for Arab States, East Africa, Afghanistan and neighbouring countries and South-Eastern Europe were fully informed by the respective evaluations and are clearly referring to and implementing the respective findings and recommendations. This is also visible in the regional programme for South-East Asia and Pacific.						
	Total			**6**	**11**	**1**	**7**	**2**
	Percentage			**22**	**41**	**4**	**26**	**7**

Chapter III
Certification of the financial statements

Letter dated 31 May 2016 from the Chief of the Financial Resources Management Service of the United Nations Office on Drugs and Crime addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Office on Drugs and Crime (UNODC) for the year ended 31 December 2015 have been prepared in accordance with financial rule 106.1 of the Financial Regulations and Rules of the United Nations.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes and the accompanying schedules provide additional information on and clarification of the financial activities undertaken by UNODC during the period covered by these statements.

I certify that the appended financial statements of UNODC are correct on the basis of our records and reports from executing agencies.

(*Signed*) Polinikis **Sophocleous**
Chief, Financial Resources Management Service
United Nations Office on Drugs and Crime

Chapter IV
Financial report for the year ended 31 December 2015

A. Introduction

1. In accordance with General Assembly resolutions 46/185 C and 61/252, the Executive Director of the United Nations Office on Drugs and Crime (UNODC) is herewith submitting the financial report and financial statements for the year ended 31 December 2015 for UNODC.

2. The financial report and financial statements provide the consolidated results related to the acquisition and utilization of voluntary contributions and the administration of regular budget resources entrusted to UNODC. The voluntary funds include the Fund of the United Nations International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Fund. The regular budget resources for UNODC have been approved by the General Assembly.

3. Information on the financial results for the Fund of the United Nations International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Fund is provided under Segment reporting (note 5 to the financial statements).

B. Operational context and activity overview

4. UNODC is mandated to work with Member States to enhance their responses to the interconnected problems of drug use, illicit drug trafficking, trafficking in human beings and firearms, transnational organized crime, corruption and terrorism. To achieve this, UNODC helps Member States to create and strengthen legislative, judicial and health systems to better safeguard their populations, especially the most vulnerable persons.

5. In 2015, at the intergovernmental level, UNODC supported global efforts to address the challenges to health, development and security posed by illicit drugs, including by facilitating open, inclusive discussions in the run-up to the special session of the General Assembly on the world drug problem, held in 2016. The Office continued to support the substantive and organizational preparations for the conduct of the high-level review by the Commission on Narcotic Drugs of the implementation by Member States of the Political Declaration and Plan of Action on International Cooperation towards an Integrated and Balanced Strategy to Counter the World Drug Problem.

6. The Office also supported the Thirteenth United Nations Congress on Crime Prevention and Criminal Justice, held in Qatar from 12 to 19 April 2015, at which the Doha Declaration on Integrating Crime Prevention and Criminal Justice into the Wider United Nations Agenda to Address Social and Economic Challenges and to Promote the Rule of Law at the National and International Levels, and Public Participation was adopted.

7. UNODC, building on all of its mandates and expertise in the areas of crime prevention and criminal justice, contributed substantially to the 2030 Agenda for Sustainable Development, adopted by the General Assembly on 25 September 2015, which promotes access to justice and the rule of law.

8. A key achievement of the Office was the successful conclusion of the UNODC-supported process of revising the Standard Minimum Rules for the Treatment of Prisoners, adopted by the General Assembly in its resolution 70/175 as the United Nations Standard Minimum Rules for the Treatment of Prisoners (the Nelson Mandela Rules).

9. UNODC further expanded delivery of normative, policy and technical services within the framework of its global programmes that are designed to support the ratification and implementation of the international drug control conventions, the United Nations Convention against Corruption and the United Nations Convention against Transnational Organized Crime and the Protocols thereto, and at promoting the development and global application of the United Nations standards and norms in crime prevention and criminal justice.

10. With regard to new technical cooperation initiatives, in 2015, UNODC launched a new regional programme for Central Asia and two "second generation" country programmes, for Afghanistan and Iran (Islamic Republic of). To strengthen cooperation at the regional level, UNODC offices in West and Central Asia developed a joint action plan for an interregional drug control approach and a pilot harmonized programme for West and Central Asia. In South-East Asia and the Pacific, the focus was on improving border controls through such initiatives as the border liaison office mechanism, the Joint Port Control Units of the UNODC-World Customs Organization Global Container Control Programme and port intelligence units aimed at detecting migrant smuggling. At the interregional level, UNODC supported the establishment of real-time operational communication between international airports in Africa and Latin America and the Caribbean. In West Africa, UNODC supported the implementation of the Economic Community of West African States regional action plan to address the growing problem of illicit drug trafficking, organized crime and drug abuse in West Africa through a new technical cooperation project in the region. In Peru, UNODC launched a new four-year alternative development programme, and in Mexico, in the context of the Mérida Initiative, UNODC developed a new programme for preventing and combating the smuggling of migrants in partnership with the Attorney General's office. A new technical cooperation project was launched in the Plurinational State of Bolivia to support the implementation of the action plan for the strategy for the fight against drug trafficking and reduction of surplus coca cultivation.

11. In 2015, UNODC prepared an annual report providing an overview of its work across the globe in assisting Member States in addressing the threats posed by transnational organized crime, drugs, illicit trafficking, corruption and terrorism during 2014. The *UNODC Annual Report 2014* reflects the forward-looking strategy that places UNODC efforts within the 2030 Agenda for Sustainable Development. The Office continued to enhance the alignment between the normative and operational pillars of its work through an integrated programming approach in which it stressed a results-based focus. The UNODC Programme Review Committee continued to provide a senior interdivisional forum for review and

guidance, as well as for ensuring complementarity between global, regional and country programmes, which are implemented in close cooperation with United Nations partners and key stakeholders. Additionally, the Office continued to implement the recommendations of oversight bodies with regard to results-based management.

12. UNODC carries out its activities in cooperation with other departments and offices of the Secretariat and entities of the United Nations system, in particular the Office of the United Nations High Commissioner for Human Rights, the United Nations Children's Fund, the United Nations Development Programme (UNDP), the United Nations Human Settlements Programme, the Joint United Nations Programme on HIV/AIDS, the International Labour Organization, the International Fund for Agricultural Development, the United Nations Industrial Development Organization, the World Health Organization and the World Bank, as well as the secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora. UNODC continued to promote the coherence of United Nations initiatives on the rule of law by participating in the Rule of Law Coordination and Resource Group and by providing expertise and support to UNDP and the Department of Peacekeeping Operations of the Secretariat in their role as global focal point for the police, justice and corrections areas of the rule of law in post-conflict and other crisis situations.

C. Budget performance highlights

13. While the financial statements have been prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS), the programme budget of UNODC continues to be formulated, managed and presented on a modified cash basis using the United Nations system accounting standards (UNSAS). A summary of the comparison of budget and actual amounts is shown in statement V.

14. All figures quoted in the present section as income and expenditures refer to modified cash basis figures, comparable with budgets (UNSAS).

15. The consolidated budget of UNODC is formulated on a biennial basis. The budget of general purpose funds (unearmarked contributions) is approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice, while the budget for special purpose funds (earmarked contributions) and the budget for programme support cost funds (administrative and programme support cost budget) is presented to the Commissions for their endorsement. Together, the unearmarked and earmarked contributions and administrative and programme support funds constitute the Office's extrabudgetary resources. The consolidated budget also includes information on the regular budget of UNODC, which is approved by the General Assembly.

16. Subsequent to the approval of the consolidated budget, the Director of the Division for Management of UNODC authorizes the allocation of funds for the implementation of programmes and projects on the basis of fund availability. At the end of the first year of the biennium, the budget is being revised to adjust to evolving needs. Such adjustments are approved/endorsed by the Commissions

within the context of the implementation report on the first year of the biennium. The final budget for 2014-2015 was presented to the Commissions at the end of 2015.

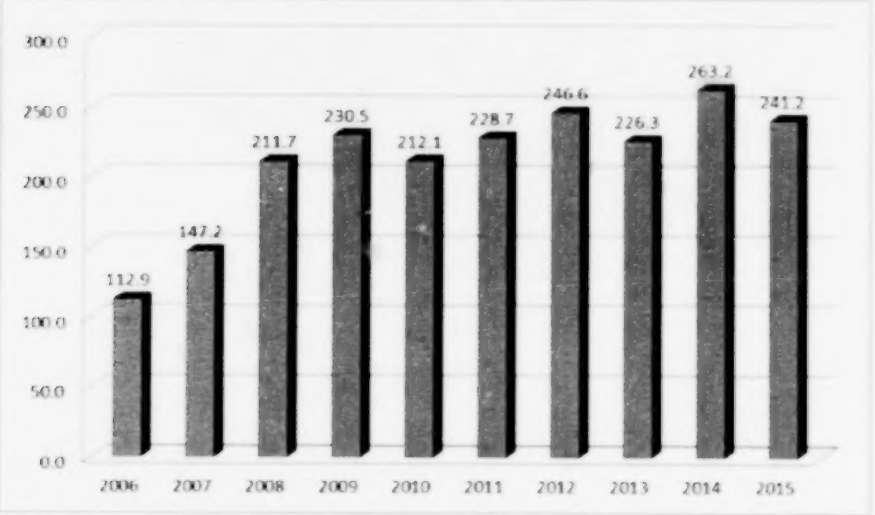
17. The resource requirements of UNODC are grouped under each of the nine subprogrammes (Countering transnational organized crime and illicit drug trafficking; Prevention, treatment and reintegration, and alternative development; Countering corruption; Terrorism prevention; Justice; Research and trend analysis; Policy support; Technical cooperation and field support; and Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board) and also provide components for executive direction and management and programme support.

18. Figure IV.I shows the 10-year trend in annual UNSAS expenditure. Figures IV.II and IV.III illustrate the distribution of the 2015 UNSAS expenditures by subprogramme and by region, respectively.

Figure IV.I

United Nations system accounting standards technical assistance expenditure trends (excluding regular budget), 2006-2015

(Millions of United States dollars)



19. Notwithstanding year-on-year fluctuations, UNODC has seen an upward trend in the delivery of technical assistance (extrabudgetary implementation) over the decade. The 2015 expenditure of $241.178 million is more than double the 2006 level of $112.933 million. Compared with $263.155 million in 2014, expenditure in 2015 represents a slight decrease of $21.977 million (8.4 per cent).

Figure IV.II

United Nations system accounting standards technical assistance expenditure by subprogramme (excluding regular budget), 2015

(Millions of United States dollars)

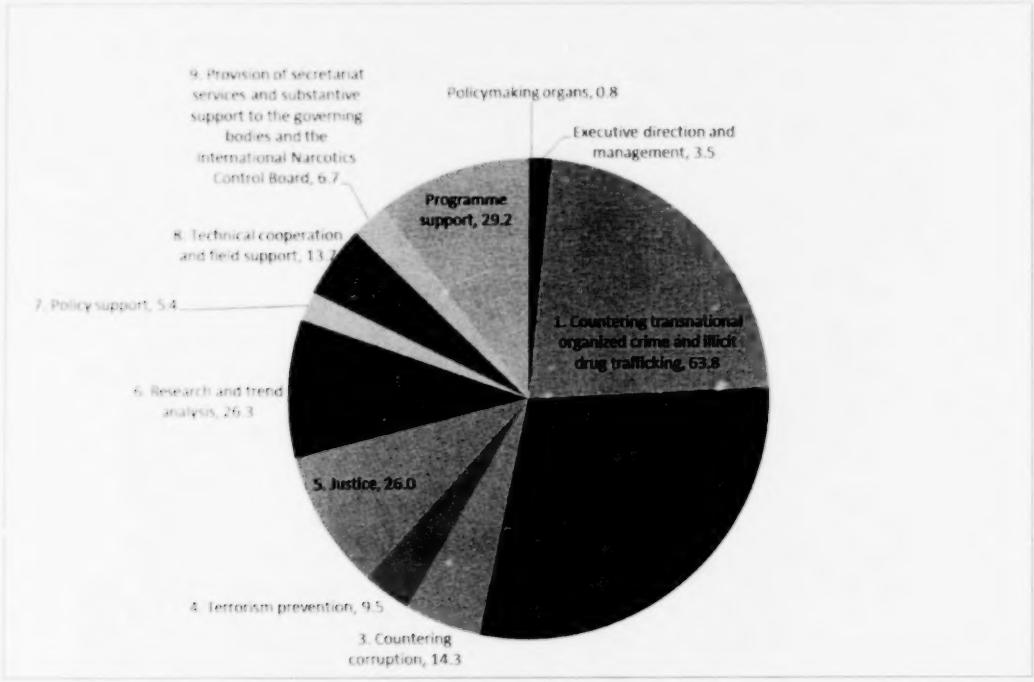
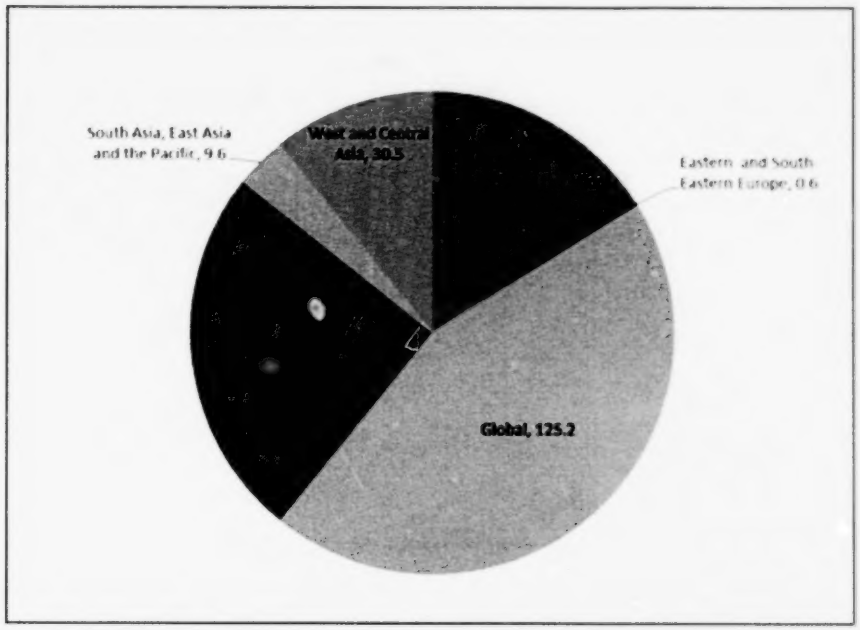

9. Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board, 6.7
Policymaking organs, 0.8
Executive direction and management, 3.5
Programme support, 29.2
8. Technical cooperation and field support, 13.1
7. Policy support, 5.4
1. Countering transnational organized crime and illicit drug trafficking, 63.8
6. Research and trend analysis, 26.3
5. Justice, 26.0
4. Terrorism prevention, 9.5
3. Countering corruption, 14.3

Figure IV.III
United Nations system accounting standards expenditure by region (including regular budget), 2015

(Millions of United States dollars)



20. Table IV.1 shows 2014 and 2015 expenditures, broken down by funding source in terms of special purpose funds (earmarked contributions), the related programme support cost funds (administrative and programme support cost budget) and general purpose funds (unearmarked voluntary contributions), and the regular budget.

Table IV.1
United Nations system accounting standards expenditure by funding source (including regular budget), 2014-2015

(Millions of United States dollars)

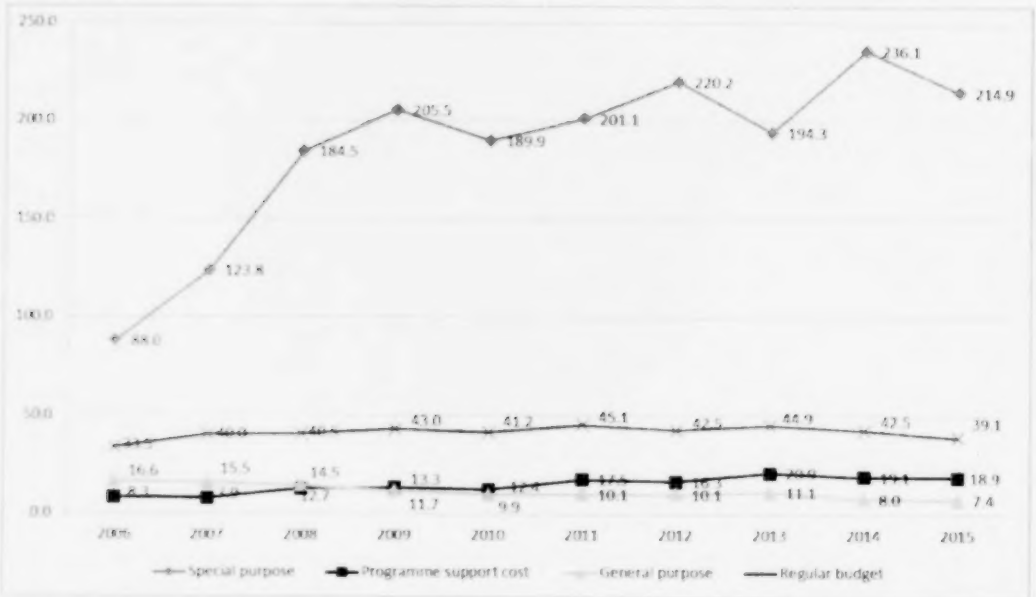
	2014 (UNSAS)		*2015 (UNSAS)*	
	Amount	*Percentage*	*Amount*	*Percentage*
Extrabudgetary resources				
Special purpose funds	236.1	77	214.9	77
Programme support cost funds	19.1	6	18.9	7
General purpose funds	8.0	3	7.4	3
Subtotal	**263.2**	**86**	**241.2**	**86**
Regular budget	42.5	14	39.1	14
Total	**305.7**	**100**	**280.3**	**10**

21. The 10-year evolution of the expenditure for special purpose funds, programme support cost funds, general purpose funds and regular budget is presented in figure IV.IV below.

Figure IV.IV

United Nations system accounting standards evolution of expenditures (including regular budget), 2006-2015

(Millions of United States dollars)



22. Figure IV.IV highlights the continuous trend towards technical assistance delivery through special purpose funding (earmarked funds) in favour of general purpose funding (unearmarked funds). In 2006, unearmarked funding was equivalent to 18.9 per cent of earmarked funding, while in 2015 it was equivalent to a mere 3.5 per cent. The continuous decline, in absolute and percentage terms, of general purpose income negatively affects the medium-term ability of UNODC to: (a) implement its strategy; (b) improve upon its management processes; (c) exercise effective corporate oversight; and (d) launch new initiatives and programmes. While UNODC responded to this trend by implementing stricter financial disciplines through full cost recovery (see section E below), it continues to call upon donors to make more soft-earmarked contributions.

23. The initial budget approved/endorsed by the Commissions in December 2013 for 2015 amounted to $293.621 million[7] of extrabudgetary resources. In December 2014, the Commissions approved/endorsed a revised 2015 budget of $361.275 million,[8] reflecting increased projections for implementation of voluntary funded

[7] See table 5 of E/CN.7/2013/15-E/CN.15/2013/28.

[8] See E/CN.7/2014/18-E/CN.15/2014/21, annex II.

programmes. The final budget for 2015 amounted to $311.616 million.[9] Compared with the UNSAS 2015 expenditures of $241.178 million (2014: $263.155 million), this equates to a delivery of 82.1 per cent (2014: 84.2 per cent) on the initial budget and 77.4 per cent (2014: 85.0 per cent) on the final budget. In addition to overcoming a temporary performance dip owing to the November 2015 implementation of Umoja (a Systems, Applications and Products in Data Processing (SAP) enterprise resource planning-based enterprise resource management system), UNODC is making efforts to improve on its budgeting precision, planning processes and assessment of capacity needs for new projects and improve coordination between the timing of contributions and actions dependent on technical assistance through implementing partners and end beneficiaries.

D. Financial analysis

24. This section reflects on the results presented in the IPSAS-based financial statements and accompanying notes, unless otherwise stated.

25. As at 31 December 2015, the net assets amounted to $453.005 million (statement I), representing an increase of $19.279 million (4.4 per cent) compared with $433.726 million as at 31 December 2014. This increase was a result of a net deficit in 2015 of $3.763 million (statement II) offset by a gain arising from the actuarial valuation of employee benefit of $24.154 million (statement III).

26. Cash and cash equivalents amounted to $79.479 million (10.4 per cent of total assets as at 31 December 2015), a decrease of $30.162 million from the 2014 amount of $109.641 million. The statement of cash flows (statement IV) shows that the decrease is due primarily to higher holdings in cash pool investments.

27. As at 31 December 2015, voluntary contributions receivable representing uncollected earmarked pledges totalled $272.701 million (2014: $297.563 million), net of allowance for doubtful receivables of $10.370 million (2014: $16.416 million) (note 8).

28. Implementing programmatic activities in partnership with other United Nations programmes and agencies, international and regional organizations, government institutions and non-governmental organizations is an important element of the UNODC business model. Under the UNODC framework of engagement with external parties, the Office transfers advances to its implementing partners and subsequently measures their utilization through partner reporting in a timely manner. As at the end of December 2015, a balance of $15.023 million (2014: $26.112 million) of advances remained outstanding. Of this amount, $5.402 million relates to advances made in support of the efforts to reduce illicit crops and promote alternative development and a culture of legality in Colombia (note 9).

29. As at 31 December 2015, UNODC held property, plant and equipment of $10.519 million (2014: $12.402 million). During 2015, as part of its programmatic activities, UNODC made significant transfers of assets to end beneficiaries, including transfers of completed construction projects to local government

[9] See E/CN.7/2015/17-E/CN.15/2015/20, annex I.

authorities ($3.080 million). As at the end of 2015, ongoing construction projects amounted to $5.435 million (note 11).

30. As at 31 December 2015, UNODC reported advance receipts of $169.690 million (2014: $184.215 million). This amount represents $164.082 million (2014: $180.326 million) of conditional voluntary contribution arrangements and $5.608 million (2014: $3.889 million) of funds received from exchange transactions for services that had not been delivered by year-end (note 14).

31. The Office's liability for employee benefits amounted to $101.904 million as at 31 December 2015 (2014: $119.065 million), of which $93.243 million (2014: $110.078 million) represents liability under defined benefit plans (note 15).

32. The total revenue of $275.156 million during 2015 (2014: $328.639 million) consisted primarily of $238.693 million (2014: $290.003 million) of voluntary contributions (86.7 per cent of total revenue) and $29.003 million (2014: $31.016 million) of allocations from the United Nations regular budget. In addition, $4.458 million (2014: $3.183 million) was derived from revenue-producing activities, including fees from Member States and other international organizations (statement II) for software use and maintenance.

33. The total expenditures for the period amounted to $278.919 million (2014: $325.421 million), mainly comprising staff-related costs of $93.191 million (2014: $102.752 million), or 33.4 per cent, and non-employee compensation and allowances of $50.935 million (2014: $49.176 million), or 18.3 per cent. Furthermore, $53.011 million of expenditures (2014: $73.871 million) represents the work delivered by the implementing partners as well as grants to non-governmental organizations under authorized small-grants schemes during 2015.

E. Challenges and improvements, 2015 and beyond

Roll-out of full cost recovery

34. Table IV.1 and figure IV.III show that, despite a growth of its special purpose income (earmarked contributions), which reached $245.194 million in 2015, the level of general purpose income (unearmarked contributions) reached a low of $4.166 million in 2015. Undoubtedly, this trend puts a strain on the flexibility of UNODC to deliver its programmes.

35. Figure IV.V presents 2015 income and expenditure by source of funding (general purpose funds, programme support cost funds and special purpose funds).

Figure IV.V
United Nations system account standards income and expenditure, by funding source
(Millions of United States dollars)

36. In 2014, with the aim of addressing the persistent deterioration of general purpose income, UNODC introduced new funding arrangements rooted in full cost recovery, linking core and programme functions to a system of direct and indirect costing. In line with prevailing Secretariat-wide policies, repeated calls of the General Assembly and requirements to align the uses of funds with their intended purpose, UNODC set out to fairly, transparently, consistently and predictably cost its technical cooperation assistance. Accordingly, UNODC took steps to devise consistent classifications of direct and indirect costs and support functions, developed cost models and budget systems, issued instructions, trained staff, provided location-specific cost statistics to Member States and adjusted to lessons learned. All UNODC divisions have taken part in the relevant activities, which were overseen by the Senior-Level Full Cost Recovery Monitoring Committee, reporting to the Executive Director of UNODC. In addition, UNODC has increasingly engaged in outreach to Member States and donors in order to ensure the mechanisms and merits of full cost recovery were clarified.

37. In 2015, UNODC reports that all new contribution agreements are based on budgets that fairly and transparently reflect the full cost of ownership by planning all costs (direct and indirect) into the technical assistance programmes. Importantly, UNODC finds itself in a better position to track cross-office comparisons, a key indicator of financial accountability.

38. A positive outcome of the new funding model is a stronger culture of cost rationalization. In 2015, the programme support account realized net savings totalling $5.7 million. These savings were the result of delayed recruitment, the freezing of five positions in the Division for Operations and the Division for Management and the utilization of alternative funding sources more appropriate to the activities performed. Total net savings of $2.2 million have also been reported by the field offices in the form of reduced direct costs attributed to projects serviced. Some progress has also been achieved in obtaining additional host-country cost-sharing contributions for operational activities and field office costs, such as the provision of office space free of charge. UNODC will continue to scrutinize its

costs wherever possible. In addition, UNODC continued with a prudent approach in the management of programme support cost funds by keeping the expenditure level lower than the income to ensure a prudent level of fund reserves.

39. It is highlighted that, while the complete roll-out of the initiative was planned within 2014-2015, the transition to full cost recovery was extended in the 2016-2017 biennium in order to allow additional time for absorption of the financial impact among programmes.

Enterprise risk management initiative

40. The United Nations Office at Vienna/UNODC enterprise risk management framework was launched in August 2014 and became fully operational in 2015. It covers many of the strategic and operational policy considerations of senior management. In particular, the risk area on "Organizational transformation and Umoja" was prioritized during the third and fourth quarters of the year, with weekly director-level meetings to ensure the effective roll-out of the new enterprise resource planning system. Completion of the roll-out of the framework to the field offices and finalization of the various products had to be extended to the first half of 2016 as a result of the competing priorities posed by Umoja implementation and a prolonged budget development process during the second half of 2015. Development of the registers for the remaining field offices was scheduled to be completed in the first half of 2016. Division-level risk registers and risk response treatment plans have also been developed, and work is ongoing to review and update these key risk matrices.

41. A second Secretariat-wide enterprise risk assessment process, led by the Department of Management, will be undertaken during the fourth quarter of 2016 or early in 2017, which would present the opportunity for UNODC to update its risk register and assess whether it would be appropriate to have a combined United Nations Office at Vienna/UNODC risk matrix.

Umoja roll-out

42. Umoja, the enterprise resource planning system of the United Nations, was deployed in Vienna and UNODC field offices in November 2015 as part of the cluster 4 deployment group, along with Headquarters and other Secretariat offices. At UNODC, the roll-out entailed immense efforts in: (a) cleansing, enriching and converting legacy data; (b) decommissioning multiple systems; (c) training of trainers, power users, and a critical mass of end users; (d) adapting Umoja end-to-end processes to UNODC intricacies; (e) adopting best practices embedded in enterprise resource planning systems; (f) assessing end-user roles; and (g) providing help desk support to all staff in Vienna and field offices.

43. Throughout the roll-out, UNODC made efforts to identify bottlenecks in order to ensure that the impact on business productivity was controlled and moderated. This, in addition to inherent performance degradations associated with first-time enterprise resource planning deployments, was critical owing to the proximity of the roll-out to the end of 2015. As such, for a three-month period following the deployment date, UNODC implemented a robust support system with experts from Vienna and Headquarters. By the end of 2015, UNODC had made great progress

towards completing the ramp-up activities with the aim of entering into a nine-month stabilization period in March 2016. Moreover, in 2016, UNODC planned to conduct additional training, refine processes and improve on internal and external reporting. In particular, in the area of reporting, UNODC took the lead in developing a Secretariat-wide contributions management reporting module suitable for external donors.

44. Without a doubt, Umoja has already introduced greater visibility and transparency by enforcing the principle of "one version of the truth" and consistent end-to-end processes. The full benefits from better planning, resource management and analytics will be felt after the stabilization phase and beyond. In 2018-2019, UNODC is expecting to roll out additional programme support functionality currently under development in New York (Umoja Extension 2).

45. Following the successful implementation of IPSAS in 2014 and Umoja in 2015, UNODC expects to benefit from enhanced processes and timely and accurate financial records that will provide better quality information to support the decision-making process. UNODC will continue to improve financial management and strengthen internal controls by delivering integrated IPSAS and Umoja training.

Results-based management

46. UNODC began its efforts to implement results-based management some time ago and is engaged in a continuous learning exercise based on internal reviews and independent evaluations. The Office fully understands the calls from Member States to improve results-based management. The full cost recovery programme supports the implementation of results-based budgeting by enhancing full costing of programmes and related reporting.

47. In 2015, UNODC prepared an annual report, which is a testament of the Office's commitment to implement sound results-based management practices and promote accountability and transparency. The annual report illustrates some of the commendable results achieved in 2014 and provides an opportunity to better understand the Office's mandate and its achievements at the global, regional and national levels. In 2016, UNODC has launched its inaugural annual funding appeal, a comprehensive overview of the Office's current and future programmes that provides a specific breakdown of UNODC funding needs. These initiatives enhance the coherence of the Office's strategic objectives and programme delivery and strengthen resource mobilization, planning processes, programme execution and reporting on results.

Chapter V

Financial statements for the year ended 31 December 2015

United Nations Office on Drugs and Crime

I. Statement of financial position as at 31 December 2015

(Thousands of United States dollars)

	Reference	*31 December 2015*	*31 December 2014 (restated)[c]*
Assets			
Current assets			
Cash and cash equivalents	Note 6	79 479	109 641
Investments	Note 7	229 082	172 383
Voluntary contributions receivable	Note 8	219 963	231 928
Other receivables	Note 8	740	586
Loans and advances to implementing partners	Note 9	15 023	23 102
Other assets	Note 10	2 216	3 329
Total current assets		**546 503**	**540 969**
Non-current assets			
Investments	Note 7	152 460	145 269
Voluntary contributions receivable	Note 8	52 738	65 634
Loans and advances to implementing partners	Note 9	–	3 010
Property, plant and equipment	Note 11	10 519	12 402
Intangibles	Note 12	508	515
Other assets	Note 10	–	156
Total non-current assets		**216 225**	**226 986**
Total assets		**762 728**	**767 955**
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	Note 13	37 865	30 712
Transfers payable		–	237
Advance receipts	Note 14	137 055	139 957
Employee benefits	Note 15	4 325	3 561
Other liabilities		264	–
Total current liabilities		**179 509**	**174 467**

United Nations Office on Drugs and Crime

I. Statement of financial position as at 31 December 2015 (continued)

(Thousands of United States dollars)

	Reference	*31 December 2015*	*31 December 2014 (restated)*[a]
Non-current liabilities			
Advance receipts	Note 14	32 635	44 258
Employee benefits	Note 15	97 579	115 504
Total non-current liabilities		**130 214**	**159 762**
Total liabilities		**309 723**	**334 229**
Net assets			
Accumulated surplus, unrestricted	Note 16	5 274	(12 707)
Accumulated surplus, restricted	Note 16	447 731	446 433
Total net assets		**453 005**	**433 726**
Total liabilities and net assets		**762 728**	**767 955**

[a] The 2014 comparatives have been restated to reflect the treatment of end-of-service liabilities for regular budget staff. Notes 10 and 16 provide further detail.

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime
II. Statement of financial performance for the year ended 31 December 2015

(Thousands of United States dollars)

	Reference	*2015*	*2014 (restated)**
Revenue			
United Nations regular budget allocation	Note 17	29 003	31 016
Voluntary contributions	Note 18	238 693	290 003
Exchange revenue	Note 19	4 458	3 183
Investment revenue		2 182	2 435
Other revenue		820	2 002
Total revenue		**275 156**	**328 639**
Expenses			
Employee salaries, allowances and benefits	Note 22	93 191	102 752
Non-employee compensation and allowances	Note 22	50 935	49 176
Grants and other transfers	Note 23	53 011	73 871
Supplies and consumables		2 381	134
Depreciation, amortization and impairment	Notes 11 and 12	1 240	1 093
Travel		14 902	14 019
Other operating expenses	Note 24	53 512	67 626
Other expenses	Note 25	9 747	16 750
Total expenses		**278 919**	**325 421**
Surplus/(deficit) for the year		**(3 763)**	**3 218**

* The 2014 comparatives have been restated to align with the 2015 expenses captions; the total expenses remain the same. Notes 23, 24 and 25 provide further detail.

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime
III. Statement of changes in net assets for the year ended 31 December 2015

(Thousands of United States dollars)

	Reference	*Accumulated surpluses/(deficits), unrestricted*	*Accumulated surpluses/(deficits), restricted*	*Total*
Net assets as at 1 January 2014 (audited)		**39 233**	**454 558**	**493 791**
Prior-period adjustment[a]	Note 16	**(37 985)**	–	**(37 985)**
Restated net assets as at 1 January 2014[a]		**1 248**	**454 558**	**455 806**
Change in net assets in 2014				
Actuarial loss on employee benefits		(14 685)	(11 063)	(25 748)
Other adjustments to net assets		(1 400)	1 850	450
Surplus/(deficit) for the year		2 130	1 088	3 218
Total changes in net assets during 2014		**(13 955)**	**(8 125)**	**(22 080)**
Restated net assets as at 31 December 2014	Statement I	**(12 707)**	**446 433**	**433 726**
Change in net assets in 2015				
Actuarial gain on employee benefits	Note 16	21 131	3 023	24 154
Other adjustments to net assets	Note 16	(4 642)	3 530	(1 112)
Surplus/(deficit) for the year	Note 16	1 492	(5 255)	(3 763)
Total changes in net assets during 2015		**17 981**	**1 298**	**19 279**
Net assets as at 31 December 2015	Statement I	**5 274**	**447 731**	**453 005**

[a] The 2014 comparatives have been restated to reflect the treatment of end-of-service liabilities for regular budget staff. Note 16 provides further detail.

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime
IV. Statement of cash flows for the year ended 31 December 2015

(Thousands of United States dollars)

	Reference	*2015*	*2014*
Cash flows from operating activities			
Surplus/(deficit) for the year		(3 763)	3 218
Non-cash movements			
Depreciation, amortization and impairment	Note 11	1 239	1 093
Net loss on disposal of property, plant and equipment	Notes 11 and 12	5 335	13 257
Current service and interest cost of employee benefits liabilities		7 585	8 920
Changes in assets			
(Increase)/decrease in voluntary contributions receivable	Note 8	24 861	(6 145)
(Increase)/decrease in other receivables	Note 8	(154)	402
(Increase)/decrease in loans and advances to implementing partners	Note 9	11 089	4 592
(Increase)/decrease in other assets		1 269	4 155
Changes in liabilities			
Increase/(decrease) in accounts payable and accruals		(7 344)	(36 899)
Increase/(decrease) in employee benefits		(593)	(3 125)
Net cash flows from operating activities		**39 524**	**(10 532)**
Cash flows from investing activities			
Net changes in cash pool investments	Note 7	(63 890)	61 992
Additions of property, plant and equipment	Note 11	(4 593)	(13 419)
Additions of intangibles		(91)	(515)
Net cash flows from investing activities		**(68 574)**	**48 058**
Cash flows from financing activities			
Movement in fund balances	Note 16	(1 112)	449
Net cash flows from financing activities		**(1 112)**	**449**
Net increase/(decrease) in cash and cash equivalents		**(30 162)**	**37 975**
Cash and cash equivalents, beginning of the year		109 641	71 666
Cash and cash equivalents, end of the year	**Note 6**	**79 479**	**109 641**

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2015

(Thousands of United States dollars)

	Publicly available budget[a]			
	Original 2015 annual[b]	*Final 2015 annual*[c]	*Actual 2015 expenditure (budget basis)*	*Difference*[d] *(percentage)*
Revenue				
United Nations regular budget allocation	44 123	39 198	39 119	0
Voluntary contributions	296 674	263 200	249 360	(5)
Total revenue	**340 797**	**302 398**	**288 479**	**(5)**
Expense				
A. Policymaking organs	955	740	808	9
B. Executive direction and management	4 411	3 874	3 500	(10)
C. Programme of work				
1. Countering transnational organized crime and illicit drug trafficking	83 263	90 001	63 763	(29)
2. Prevention, treatment and reintegration, and alternative development	74 162	81 066	81 106	0
3. Countering corruption	23 320	20 349	14 299	(30)
4. Terrorism prevention	9 243	11 621	9 486	(18)
5. Justice	33 298	37 461	26 040	(30)
6. Research and trend analysis	40 995	44 814	26 275	(41)
7. Policy support	6 590	7 179	5 427	(24)
8. Technical cooperation and field support	17 247	17 478	13 699	(22)
9. Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board	7 760	7 308	6 712	(8)
D. Programme support	36 500	28 922	29 181	1
Total expenses	**337 744**	**350 813**	**280 296**	**(20)**
Net surplus/(deficit)	**3 053**	**(48 415)**	**8 183**	–

[a] Statement V budget is reported on an annual basis for reporting purposes. See Note 5 for details of the 2014-2015 biennial budget information.

[b] Original approved budget for 2015 of $337.7 million covers extrabudgetary resources of $293.6 million approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (see E/CN.7/2014/18-E/CN.15/2014/21). It also includes the United Nations regular budget resources of $23.7 million covering direct programme delivery (sects. 1, 16 and 23 of the budget) and programme support to all United Nations Secretariat entities in Vienna of $20.4 million (sect. 29G of the budget) approved by the General Assembly (resolutions 68/248 A-C). For comparability to initial budget, final budget and actual expenditures are reported on the same basis (including regular budget, sects. 1, 16, 23 and 29G).

[c] Final budget for 2015 of $350.8 million covers extrabudgetary resources of $311.6 million approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (see E/CN.7/2015/17-E/CN.15/2015/20). It also includes the United Nations regular budget resources of $23.1 million covering direct programme delivery (sects. 1, 16 and 23 of the budget) and programme support to all United Nations Secretariat entities in Vienna of $16.1 million approved by the General Assembly (resolutions 70/240 A and B).

[d] Actual expenditure (budget basis) less final budget, divided by final budget. Further details and material differences are available under note 5, Comparison to budget.

United Nations Office on Drugs and Crime
Notes to the financial statements

Note 1
Reporting entity

United Nations Office on Drugs and Crime, its objectives and activities

1. The United Nations Office on Drugs and Crime (UNODC) was established in 1997[10] through a merger between the United Nations Drug Control Programme[11] and the Centre for International Crime Prevention.[12] UNODC works with Member States to enhance their efforts to combat the intertwined problems of drug use, trafficking, transnational organized crime, corruption and terrorism by helping to create and strengthen legislative, judicial and health systems to safeguard some of the most vulnerable persons in society.

2. The policy directions of UNODC are grounded in the international drug control conventions, the United Nations Convention against Transnational Organized Crime and the Protocols thereto, the United Nations Convention against Corruption, the universal legal instruments against terrorism in all its forms and manifestations and related mandates adopted by the General Assembly, the Economic and Social Council, the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice. The Office's work flows logically from these mandates and is reflected in its mission, which is "to contribute to the achievement of security and justice for all by making the world safer from drugs, crime and terrorism".

3. In order to enhance the Office's effectiveness and accountability, as well as to strengthen results-based management in line with General Assembly resolution 64/259, the programme of work for the biennium 2014-2015 has been organized into six thematic subprogrammes (Countering transnational organized crime and illicit drug trafficking; Prevention, treatment and reintegration, and alternative development; Countering corruption; Terrorism prevention; Justice; and Research and trend analysis) and three subprogrammes under which the Office provides cross-cutting services to Member States (Policy support; Technical cooperation and field support; and Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board). These subprogrammes are tailored to the crime and drug control priorities contained in the UNODC strategy for 2012-2015, as approved by Member States, and provide the foundation for the effective implementation of integrated programmes that are tailored to meet the needs of Member States. The programme of work is delivered

[10] See A/51/950, paras. 143-145.

[11] The United Nations International Drug Control Programme was established pursuant to General Assembly resolution 45/179 of 21 December 1990 as the body responsible for coordinated international action in the field of drug abuse control. The authority for the Fund of the Programme was conferred on the Executive Director by the General Assembly in its resolution 46/185 C of 20 December 1991.

[12] The Crime Prevention and Criminal Justice Programme was established by the General Assembly in its resolution 46/152 of 18 December 1991. Since 1997, the Programme has been implemented by the Centre for International Crime Prevention, which was established in accordance with the Secretary-General's reform programme (see A/51/950, sect. V).

by the three substantive divisions of UNODC, namely, the Division for Operations, the Division for Policy Analysis and Public Affairs and the Division for Treaty Affairs. Strong emphasis is placed on addressing issues that cut across subprogrammes, allowing for leveraging of complementarities and synergies among divisions and the Office's extensive field office network. Thematic experts of the Office perform both normative and operational work and also facilitate the development and delivery of technical cooperation programmes at the global, regional and country levels. A fourth division, the Division for Management, is accountable for global administrative support through the provision of guidance, oversight and delivery of financial planning, human resources, procurement and conference management services.

4. The governing bodies of the Office are the General Assembly, the Economic and Social Council, the Commission on Narcotic Drugs and its subsidiary bodies and the Commission on Crime Prevention and Criminal Justice. UNODC also supports the International Narcotics Control Board, the United Nations Congress on Crime Prevention and Criminal Justice, the Conference of the Parties to the United Nations Convention against Transnational Organized Crime and the Conference of the States Parties to the United Nations Convention against Corruption.

5. Headquartered in Vienna, UNODC operates in all regions of the world through an extensive network of regional offices (8), country offices (10), programme offices (47) and liaison and partnership offices (2).

6. UNODC is primarily funded by voluntary contributions to the Fund of the United Nations Drugs Control Programme and to the United Nations Crime Prevention and Criminal Justice Fund. A small portion of UNODC funding comes from the regular budget of the United Nations approved by the General Assembly.

7. The Office's financial statements fully incorporate the financial transactions and results of the United Nations Interregional Crime and Justice Research Institute based in Turin, Italy. The Institute was established in 1967 by the Economic and Social Council following its resolution 1086 (XXXIX), which urged an expansion of United Nations activities in crime prevention and criminal justice. The Institute is overseen by a board of trustees, which includes one representative from UNODC. The Institute is governed by a statute adopted by the Council in its resolution 1989/56 and reports to the Secretary-General and the Council through the Commission on Crime Prevention and Criminal Justice. Strategic direction and programme support is provided by UNODC.

Note 2
Basis of preparation

Authorization

8. These financial statements are certified by the UNODC Chief of Financial Resources Management Service and were approved by the Executive Director of UNODC on 31 May 2016. The report of the Board of Auditors together with the financial statements are transmitted to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions and are transmitted to the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice.

Basis of preparation

9. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements and accompanying notes are prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS). These statements present fairly the assets, liabilities, revenue and expenses of UNODC and the cash flows over the financial year. The underlying accounting policies have been applied consistently in the preparation and presentation of these financial statements.

10. The financial statements have been prepared on a going-concern basis. The assertion is based on the approval by the Commissions and the General Assembly of the budget requirements for 2014-2015 and the historical trend of collection of assessed and voluntary contributions over the past years.

Measurement basis

11. The financial statements are prepared using the historic cost convention except for certain assets as stated in the accompanying notes. The financial statements are prepared for the 12-month period from 1 January to 31 December.

Functional and presentation currency and treatment of foreign currencies

12. The functional currency of the Office is the United States dollar, which is also the presentation currency of these financial statements. The statement and notes are presented in thousands of United States dollars unless otherwise indicated.

13. Foreign currency transactions are translated into United States dollars at the United Nations operational rate of exchange at the date of the transaction. The United Nations operational rate of exchange approximates the spot rates prevailing as at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the United Nations operational rate of exchange year-end rate. Non-monetary foreign currency items are carried at historical cost or fair value at exchange rates prevailing at the date of the transaction or when the fair value was determined. Resulting exchange gains and losses are presented in the statement of financial performance on a net basis.

Materiality and use of judgment and estimates

14. The preparation of financial statements in accordance with IPSAS requires use of estimates, judgments and assumptions. Materiality is central to the UNODC decision-making process and guides accounting treatment related to presentation, disclosure, aggregation, offsetting and timing of application of changes in accounting policies. In general, an item is considered material if its omission or aggregation would affect the conclusions or decisions of users of the financial statements.

15. Accounting estimates and underlying assumptions, including actuarial measurements, asset useful lives, impairment, inflation and discount rates are reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the changes in estimates take place.

Future accounting pronouncements

16. The progress and impact of the following significant future IPSAS Board accounting pronouncements on the Office's financial statements continue to be monitored:

(a) Public sector specific financial instruments: to develop this accounting guidance, the project will focus on issues related to public sector specific financial instruments which are outside the scope of those covered by IPSAS 28: Financial instruments: presentation, IPSAS 29: Financial instruments: recognition and measurement, and IPSAS 30: Financial instruments: disclosures;

(b) Public sector combinations: the project will prescribe the accounting treatment for public sector combinations and develop a new standard setting out the classification and measurement of public sector combinations, that is, transactions or other events that bring two or more separate operations into a single public sector entity;

(c) Heritage assets: the project objective is to develop accounting requirements for heritage assets;

(d) Non-exchange expenses: the aim of the project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits;

(e) Revenue: the scope is to develop new standard-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9: Revenue from exchange transactions, IPSAS 11: Construction contracts, and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers);

(f) Employee benefits: the objective is to issue a revised IPSAS 25: Employee benefits, which will converge with the underlying International Accounting Standard 19: Employee benefits;

(g) Consequential amendments arising from chapters 1-4 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: this project's objective is to make revisions to IPSAS standards that reflect concepts from these chapters, in particular the objectives of financial reporting and the qualitative characteristics and constraints of information.

Future requirements of the International Public Sector Accounting Standards

17. On 30 January 2015, the IPSAS Board published five new standards, four of which have the potential to affect the reporting entity's future financial statements, including IPSAS 34: Separate financial statements; IPSAS 35: Consolidated financial statements; IPSAS 36: Investments in associates and joint ventures; IPSAS 37: Joint arrangements; and IPSAS 38: Disclosure of interests in other entities. Application of these standards is required for periods beginning on or after 1 January 2017. The impact of these standards on the Office's financial statements is being evaluated for application by 1 January 2017.

Note 3
Significant accounting policies

Revenue recognition and financial statements treatment

Non-exchange revenue: regular budget allocation

18. In its consolidated biennial budget, UNODC includes the regular budget resources that directly finance its programmatic delivery and the total support resources for all United Nations operations in Vienna. The relevant sections of the United Nations regular budget are sections 1, 16, 23 (covering programme delivery) and 29 (covering support). Statement V, on the comparison between budgeted and actual amounts, preserves the budget view and includes the section 29 results in their entirety. With the exception of statement V, the UNODC IPSAS financial statements take a strict UNODC entity view and only include the regular budget resources directly attributable to the programme delivery and support to UNODC. Consequently, the IPSAS financial statements account for only a portion of section 29 of the United Nations regular budget; that is, they exclude the section 29 support resources used for other United Nations Secretariat entities in Vienna.

19. Upon approval, the total United Nations regular budget is assessed to the Member States in accordance with the scale of assessments determined by the General Assembly. The management and collection of the regular budget assessments is performed centrally by the Secretariat. As a result, UNODC does not control the individual assessment receivables and therefore does not recognize them in its financial statements.

20. UNODC recognizes in its financial statements the yearly allocation utilized as revenue in the statement of financial performance and assumed as fully received in the statement of financial position. Any net asset position of the regular budget fund in UNODC financial statements represents a legal obligation of the regular budget towards UNODC.

Non-exchange revenue: voluntary contributions

21. Voluntary contributions and other transfers supported by firm enforceable pledges or other agreements and not subject to restrictions with regard to the probable inflow of resources are recognized as revenue in full, irrespective of the duration of the agreement. Contributions subject to specific restrictions are recorded as liabilities and the revenue is recognized only when the conditions are met. Contributions and other transfers not supported by enforceable agreements are recognized as revenue only upon receipt of cash.

22. Voluntary contributions receivable balances represent uncollected revenue from enforceable agreements and are stated at nominal value, less any specific impairments. An allowance for doubtful receivables is applied based on historical collection experience.

Non-exchange revenue: in-kind contributions

23. Outright in-kind contributions and donated rights to use of goods over $5,000 are recognized as revenue to the extent that future economic benefits or service potential to the Office is probable and their measurement reliable. Contributions in

kind are initially measured at their fair value as at the date of receipt and determined by reference to observable market values or by independent appraisals. In-kind contributions of services are not recognized as revenue but rather disclosed in the notes to the financial statements to the extent that they exceed $20,000.

Exchange revenue

24. Exchange transactions are those in which the Office provides goods or services, such as training, software and conference management support, to governments, United Nations entities and other partners. Revenue is recognized at fair value when the goods are delivered or the services rendered. Related amounts billed but not collected are included within other receivables, and amounts collected but not yet utilized are included within advance receipts.

Investment revenue and cash pool assets

25. The United Nations Treasury invests funds pooled from the United Nations Secretariat entities, including UNODC, and other participating entities. Participation in these United Nations cash pools implies sharing the risks and returns on investments with the other participants; each participant is exposed to the overall risk of the investment portfolio to the extent of the amount of cash invested.

26. The Office's share of the United Nations investment in the cash pools is reported under cash and cash equivalents, short-term investments and long-term investments depending on the maturity period. The Office's share of the investment cash pool revenue, realized gains on the sale of cash pool securities and realized and unrealized gains and losses are reported in the statement of financial performance.

Expenses and financial statement treatment

27. UNODC delivers technical assistance programmes through projects in Vienna and its worldwide network of field offices. Projects are executed through direct project delivery or through implementing partners.

28. In accordance with IPSAS, expenses are reported according to the delivery principle. Expenses are recognized on an accrual basis when goods are delivered and services are rendered regardless of the terms of payment.

Employee salaries, allowances and benefits

29. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship is defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101 (1) of the Charter.

30. Employee benefits are classified into short-term, long-term, post-employment and termination benefits.

(a) Short-term employee benefits

31. Short-term employee benefits (other than termination benefits) are those falling due within 12 months and comprise first-time employee benefits (assignment grants), wages, salaries and allowances, compensated absences (paid sick leave,

maternity/paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes, home leave and paid annual leave). Amounts accrued but not yet paid are reported as current liabilities in the statement of financial position.

(b) Post-employment benefits

32. Post-employment benefits comprise payments for end-of-service benefits, including the United Nations Joint Staff Pension Fund, after-service health insurance, repatriation benefits and other end-of-service allowances.

33. Post-employment benefits are categorized as defined benefit plans, where UNODC is obliged to provide agreed benefits and therefore bears all risks. Plan obligations, with the exception of the end-of-service allowances, are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds with maturity dates approximating those of the underlying plans. Changes in the liabilities, including actuarial gains and losses, are presented in the statement of financial performance under surplus/deficit. The Office does not hold any plan assets as defined by IPSAS 25: Employee benefits.

34. UNODC participates in the United Nations Joint Staff Pension Fund, a funded, multi-employer defined benefit plan established by the General Assembly to provide retirement, death and disability benefits. The plan exposes UNODC to actuarial risks associated with the current and former employees of other participating organizations. Participants in the Pension Fund jointly determined that there is no consistent and reliable basis for allocating the assets and liabilities and performance (costs) among them. Therefore, as permitted by IPSAS 25: Employee benefits, and consistent with Secretariat-wide policy, UNODC treats the Pension Fund as a defined contribution plan with the obligations for contributions to the Pension Fund presented as employee benefit expenses in the statement of financial performance.

(c) Termination benefits

35. Termination benefits are expensed to the extent that there are formal detailed plans in place to terminate staff employment before the normal retirement date, or offers made during voluntary redundancy schemes. Termination benefits not falling due within 12 months are discounted if the impact of discounting is material.

(d) Other long-term employee benefits

36. Other long-term employee benefits are those not falling due within 12 months and comprise home leave and annual leave.

(e) Non-employee compensation

37. Non-employee compensation and allowances consist of expenses incurred with respect to consultant and contractors, ad hoc experts and United Nations Volunteers. Contracts are held directly with third parties or through other United Nations agency service providers. Non-employees do not earn key allowances and benefits provided

to United Nations employees, such as assignment and education grants, pension, health insurance, leave and severance pay.

Implementation through external parties: advance transfers (to implementing partners) and grants

(a) Advance transfers

38. UNODC often implements programmatic activities through implementing partners, such as United Nations programmes and agencies, international and regional organizations, government institutions and non-governmental organizations. Partner deliverables are agreed in joint project and programme cooperation agreements. Advance cash transfers are amounts provided up front to partners to deliver the agreed programme; these are initially recognized as assets and subsequently expensed based on submitted financial reports. In the absence of such financial reports, an informed assessment is made to accrue based on estimates of work completion after close consultation with the UNODC office responsible for managing the agreement. Binding agreements to fund implementing partners not paid out by the end of the reporting period are shown as commitments under accounts payable and other accrued expenses.

39. In the case of agreements on construction works, UNODC measures the work delivered based on engineering reports submitted by the implementing partner/subcontractor and the Office's own site engineering team.

(b) Grants

40. UNODC operates outright grant schemes to end beneficiaries provided conditions in project and donor covenants so permit. Individual grant awards are limited to $60,000. Outright grants are fully expensed upon disbursement, which normally coincides with the grant signature.

Assets

General treatment and classification

41. Assets are assessed at each reporting date. Where it is determined that grounds for impairment exist, the corresponding losses are recognized in a timely manner.

42. Receivables are recognized at their nominal value unless the effect of discounting to their net present value is material. Allowances for doubtful receivables are recognized based on historical collection experience.

43. Offsetting and netting off assets and liabilities in the statement of financial position is applied only when a legally enforceable right exists.

44. Assets with maturities in excess of 12 months as at the reporting date are categorized as non-current assets.

Cash and cash equivalents

45. Cash and cash equivalents comprise cash in bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of

acquisition. Holdings denominated in foreign currencies are revalued at the year-end United Nations operational rate of exchange.

Property, plant and equipment

Measurement of cost at recognition

46. Property, plant and equipment items are stated at historical cost less accumulated depreciation and impairment. For donated assets, the fair value as at the date of acquisition is utilized as a proxy for historical cost.

47. Assets utilized in the delivery of UNODC programmes or projects are categorized as project assets, whereas those used for non-project specific activities are categorized as management assets. Project assets that are not controlled by UNODC are expensed upon purchase.

Depreciation and useful life

48. Property, plant and equipment items are fully depreciated over their estimated useful life using the straight-line method. Land, assets under construction and project assets in transit are not subject to depreciation. The table below shows the estimated useful lives and capitalization thresholds for the various classes of property, plant and equipment.

Asset class and subclass	*Capitalization threshold (United States dollars)*	*Estimated useful life (years)*
Buildings[a]	20 000	7-50
Communications and information technology equipment[a]	20 000	4-7
Vehicles	5 000	6-12
Furniture and fixtures	20 000	3-10
Machinery and equipment[a]	20 000	5-20
Self-constructed assets	100 000	—
Leasehold improvements	100 000	Shorter of lease term or 5 years

[a] Lower threshold of $5,000 applies to prefabricated buildings, satellite communication systems, generators and network equipment.

Assets under construction

49. UNODC enters into construction works, such as the building of prisons and courthouses, for the benefit of Member States. Upon completion, these assets are delivered to end beneficiaries. Work completion is measured based on engineering reports submitted by the implementing partner/subcontractor and the Office's own site engineering team. As these assets are not used by UNODC but rather delivered to end beneficiaries, no depreciation charge is recognized in the financial statements.

Disposal and impairment

50. Gains or losses resulting from the disposal or transfer of assets are reported in the statement of financial performance under other revenue or other expenses.

51. Impairment reviews for property, plant and equipment are undertaken yearly or when events or changes in circumstances indicate that carrying amounts may not be recoverable.

Intangible assets

Measurement of cost at recognition

52. Intangible assets developed for use by UNODC are carried at cost less accumulated amortization and impairment. Capitalized costs may include acquired computer software licences, direct development costs (for example, employee costs, consultant costs and applicable overheads) and other costs incurred to acquire and bring the specific software to use. For donated intangible assets, the fair value as at the date of acquisition is utilized as a proxy for historical cost.

Amortization and useful life

53. Intangible assets with definite useful lives are fully amortized using the straight-line method over their estimated useful lives. The table below shows the estimated useful lives and thresholds of major classes of intangible assets.

Class	*Capitalization threshold (United States dollars)*	*Estimated useful life (years)*
Acquired externally software	20 000	3-10
Internally developed software	100 000	3-10
Licences and rights	20 000	2-6 (period of licence/right)
Assets under development	100 000	Not amortized

Impairment

54. Impairment reviews for intangibles are undertaken yearly or when events or changes in circumstances indicate that carrying amounts may not be recoverable.

Liabilities

Treatment and classification

55. Liabilities are normally recognized at fair value. Liabilities which are expected to be settled in less than 12 months are reported as current, whereas others are classified as non-current. Certain liabilities relating to employee benefits are subject to actuarial valuation.

Accounts payable and other payables and accruals

56. Accounts payable and other payables comprise liabilities in respect of invoiced goods or services that have been acquired and received. Accruals

provisions are made for goods and services received but not yet invoiced as at the reporting date.

Employee benefits

57. UNODC recognizes liabilities and accruals for:

(a) Short-term employee benefits, measured at nominal value;

(b) Post-employment benefits and termination benefits, calculated by independent actuaries using the projected unit credit method. Unfunded actuarial gains and losses arising from changes in actuarial assumptions are recognized in the statement of changes in net assets;

(c) Other long-term employee benefits, measured at nominal value;

(d) The United Nations Joint Staff Pension Fund. In line with the requirements of IPSAS 25: Employee benefits, UNODC has treated this plan as if it were a defined contribution plan. Accordingly, the Office's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance. Liabilities to the fund are recognized only to the extent the contributions payable as at the statement date have not been settled.

Leases

(a) Operating leases

58. UNODC enters into lease arrangements for property, plant and equipment where all of the risks and rewards of ownership are not substantially transferred to the Organization. Such arrangements are classified as operating leases. Payments made under operating leases are expensed over the term of the lease.

(b) Finance leases

59. Leases of tangible assets, where UNODC has substantially all the risks and rewards incidental to ownership of an asset, are classified as finance leases.

60. Assets leased under finance leases are capitalized and included in property, plant and equipment, and the corresponding liability to the lessor is included under other liabilities. A finance lease and the corresponding liability are recognized initially at the lower of the fair value of the asset or present value of the minimum lease payments. Finance charges payable are recognized over the term of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

(c) Donated rights to use

61. Depending on the nature of the agreement, donated-rights-to-use arrangements can be treated as operating or finance leases. Long-term donated-rights-to-use building and land arrangements where the Office does not have exclusive control over the building and title to the land is not granted are accounted for as operating leases. The threshold for the recognition of revenue and expense for an operating lease is $20,000. UNODC normally estimates such donated rights by reference to market values for similar properties.

Provisions and contingent liabilities

62. Provisions are recognized if, as a result of a past event, the Office has a probable and measurable legal or constructive obligation as at the reporting date. Amounts provided represent the present value of the amount expected to be paid upon settlement.

63. Contingent liabilities, including those related to legal proceedings or labour claims, are possible obligations arising from past events whose existence will be confirmed only by the occurrence or not of one or more uncertain future events not wholly within the control of UNODC and, therefore, are not recognized. Contingent liabilities are also considered to be those present obligations arising from past events but not recognized as it is not probable that an outflow of resources will be required to settle these obligations, or because the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed unless the possibility of resource outflow is remote.

Commitments

64. Commitments are future expenses to be incurred by the Office on contracts entered into by the reporting date and over which the Office has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include capital commitments (amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that will be delivered to the Office in future years, non-cancellable minimum lease payments and other non-cancellable commitments.

Note 4
Segment reporting

65. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

66. With regard to segment reporting, the Office's revenue, expenses, assets and liabilities are presented in the tables below by reference to two major pillars of the Office's mandate: the United Nations International Drug Control Programme (drug programme) and the United Nations crime prevention and criminal justice programme (crime programme). Activities that are not earmarked for specific programmes are reported on the basis of the performance ratio of drug and crime programmes for the purpose of segment reporting.

Statement of financial position as at 31 December 2015

(Thousands of United States dollars)

	Drug programme	*Crime programme*	*Total*
Assets			
Current assets			
Cash and cash equivalents	49 850	29 629	79 479
Investments	117 206	111 876	229 082
Voluntary contributions receivable	51 162	168 801	219 963
Loans and advances to implementing partners	8 939	6 084	15 023
Other assets	1 251	1 705	2 956
Total current assets	**228 408**	**318 095**	**546 503**
Non-current assets			
Investments	78 004	74 456	152 460
Voluntary contributions receivable	16 245	36 493	52 738
Property, plant, equipment and intangibles	5 989	5 038	11 027
Total non-current assets	**100 238**	**115 987**	**216 225**
Total assets	**328 646**	**434 082**	**762 728**
Liabilities			
Current liabilities			
Accounts payable	17 990	19 875	37 865
Advance receipts	35 818	101 237	137 055
Employee benefits	2 219	2 106	4 325
Other liabilities	139	125	264
Total current liabilities	**56 166**	**123 343**	**179 509**
Non-current liabilities			
Advance receipts	10 291	22 344	32 635
Employee benefits	54 268	43 311	97 579
Total non-current liabilities	**64 559**	**65 655**	**130 214**
Total liabilities	**120 725**	**188 998**	**309 723**
Net assets			
Accumulated surplus/(deficit), unrestricted	16 039	(10 765)	5 274
Accumulated surplus, restricted	191 882	255 849	447 731
Total net assets	**207 921**	**245 084**	**453 005**
Total liabilities and net assets	**328 646**	**434 082**	**762 728**

Comparative statement of financial position as at 31 December 2014 (restated)[a]

(Thousands of United States dollars)

	Drug programme	*Crime programme*	*Elimination*[b]	*Total*
Assets				
Current assets				
Cash and cash equivalents	66 912	42 729	–	109 641
Investments	89 894	82 489	–	172 383
Voluntary contributions receivable	86 851	145 077	–	231 928
Loans and advances to implementing partners	17 500	5 602	–	23 102
Other assets	5 637	993	(2 715)	3 915
Total current assets	**266 794**	**276 890**	**(2 715)**	**540 969**
Non-current assets				
Investments	76 854	68 415	–	145 269
Voluntary contributions receivable	12 808	52 826	–	65 634
Loans and advances to implementing partners	–	3 010	–	3 010
Property, plant, equipment and intangibles	6 705	6 212	–	12 917
Other assets	84	72	–	156
Total non-current assets	**96 451**	**130 535**	**–**	**226 986**
Total assets	**363 245**	**407 425**	**(2 715)**	**767 955**
Liabilities				
Current liabilities				
Accounts payable	15 059	15 890	–	30 949
Advance receipts	42 806	97 151	–	139 957
Employee benefits	1 862	1 699	–	3 561
Other liabilities	–	2 715	(2 715)	–
Total current liabilities	**59 727**	**117 455**	**(2 715)**	**174 467**
Non-current liabilities				
Advance receipts	17 655	26 603	–	44 258
Employee benefits	61 479	54 025	–	115 504
Total non-current liabilities	**79 134**	**80 628**	**–**	**159 762**
Total liabilities	**138 861**	**198 083**	**(2 715)**	**334 229**

	Drug programme	*Crime programme*	*Elimination*[b]	*Total*
Net assets				
Accumulated surpluses/(deficit), unrestricted	7 212	(19 919)	–	(12 707)
Accumulated surpluses, restricted	217 172	229 261		446 433
Total net assets	**224 384**	**209 342**	–	**433 726**
Total liabilities and net assets	**363 245**	**407 425**	**(2 715)**	**767 955**

[a] The 2014 comparatives have been restated to reflect the treatment of end-of-service liabilities for regular budget staff. Notes 10 and 16 provide further detail.
[b] Elimination of interfund receivable/payable.

Statement of financial performance for the year ended 31 December 2015

(Thousands of United States dollars)

	Drug programme	*Crime programme*	*Total*
Revenue			
United Nations regular budget allocation	15 414	13 589	29 003
Voluntary contributions	101 835	136 858	238 693
Exchange revenue	930	3 528	4 458
Investment revenue	1 276	906	2 182
Other revenue/income	243	577	820
Total revenue	**119 698**	**155 458**	**275 156**
Expenses			
Employee salaries, allowances and benefits	47 213	45 978	93 191
Non-employee compensation and allowances	28 236	22 699	50 935
Grants and other transfers	25 760	27 251	53 011
Depreciation, amortization and impairment	760	480	1 240
Other operating expenses	31 686	21 826	53 512
Other miscellaneous expenses	14 614	12 416	27 030
Total expenses	**148 269**	**130 650**	**278 919**
Surplus/(deficit) for the year	**(28 571)**	**24 808**	**(3 763)**

Comparative statement of financial performance for the year ended 31 December 2014

(Thousands of United States dollars)

	Drug programme	*Crime programme*	*Total*
Revenue			
United Nations regular budget allocation	16 640	14 376	31 016
Voluntary contributions	133 041	156 962	290 003
Exchange revenue	432	2 751	3 183
Investment revenue	1 435	1 000	2 435
Other revenue/income	1 918	84	2 002
Total revenue	**153 466**	**175 173**	**328 639**
Expenses			
Employee salaries, allowances and benefits	49 169	53 583	102 752
Non-employee compensation and allowances	28 892	20 284	49 176
Grants and other transfers	43 323	30 548	73 871
Depreciation, amortization and impairment	700	393	1 093
Other operating expenses	41 388	42 155	83 543
Other miscellaneous expenses	7 782	7 204	14 986
Total expenses	**171 254**	**154 167**	**325 421**
Surplus/(deficit) for the year	**(17 788)**	**21 006**	**3 218**

67. The deficit position for the drug programme is primarily as a result of the utilization of earmarked contributions received in prior years.

Note 5
Comparison to budget

68. UNODC budgets are prepared on a modified cash basis, the results of which are presented in statement V. Explanations for material differences between the final budget amounts and actual expenditure amounts on a modified cash basis are considered in the table below.

69. The original approved budget for the biennium 2014-2015 of $737.2 million was reported in the consolidated budget for UNODC (E/CN.7/2014/18-E/CN.15/2014/21) and covers extrabudgetary resources of $648.3 million approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (see E/CN.7/2013/15-E/CN.15/2013/28), regular budget resources of $48.0 million covering direct programme delivery (sects. 1, 16 and 23 of the budget) and programme support to all United Nations Secretariat entities in Vienna of $41.0 million (section 29G of the budget) approved by the General Assembly (resolutions 68/248 A-C). Of the $737.2 million, the original budget for 2014 of $399.5 million was reported in the 2014 financial statement, and the original budget for 2015 of $337.7 million is reported in this statement.

70. The final budget for the biennium 2014-2015 of $662.0 million covers extrabudgetary resources of $577.3 million approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (see E/CN.7/2015/17-E/CN.15/2015/20), and regular budget resources of $47.6 million covering direct programme delivery (sects. 1, 16 and 23 of the budget) and programme support to all United Nations Secretariat entities in Vienna of $37.1 million (section 29G of the budget) approved by the General Assembly (resolutions 70/240 A and B). While document E/CN.7/2015/17-E/CN.15/2015/20 only included regular budget sections 16 and 23, for comparability to initial budget, regular budget sections 1 and 29G have been included in General Assembly resolutions 70/240 A and B. Of the $662.0 million, the final budget for 2014 is $311.2 million, and the final budget for 2015 is $350.8 million.

71. Expenditure for the biennium 2014-2015 amounts to $586.0 million, including 2014 expenditure of $305.7 million reported in the financial statement for 2014, and 2015 expenditure of $280.3 million reported in this statement. Compared with the final budget for the biennium, this represents an implementation rate of 88.5 per cent.

72. As explained in chapter IV, Umoja, the United Nations enterprise resource planning system, was deployed in Vienna and UNODC field offices in November 2015 as part of the cluster 4 deployment group along with United Nations Headquarters and other Secretariat offices. Throughout the roll-out of Umoja, UNODC made efforts to identify bottlenecks in order to ensure the negative impact on business productivity was controlled and moderated. This was critical owing to the proximity of the roll-out to the end of 2015, in addition to inherent performance degradations associated with first-time enterprise resource planning deployments. Notwithstanding the efforts made, UNODC faced difficulties in processing activities during the launch period, which affected delivery both in Vienna and in the field offices.

73. The explanations on material differences provided in the table below are in addition to the causes as a result of the roll-out of Umoja.

Budget caption	*Material differences*
Subprogramme 1, Countering transnational organized crime and illicit drug trafficking	The variance of $26.2 million relates mainly to delayed implementation of the projects on support for the Economic Community of West African States regional action plan to address the growing problem of illicit drug trafficking, organized crime and drug abuse in West Africa; the consolidation of the criminal procedure reform in Panama; countering the trafficking of Afghan opiates via the northern route by enhancing the capacity of key border crossing points and through the establishment of border liaison offices; the regional programme for South-Eastern Europe; security cooperation with Panama; promoting better management of migration in Nigeria by combating and reducing irregular migration that occurs, inter alia, through trafficking in persons and smuggling of migrants; the response to drugs and related organized crime in Nigeria; and strengthening criminal justice systems in the Sahel in order to effectively combat drug trafficking, illicit trafficking, organized crime, terrorism and corruption in the region.

Budget caption	*Material differences*
	The reasons for delayed implementation include delays in large procurement cases conducted by UNDP in Panama; delays in receiving the funding tranches from the donor, with the lack of cash affecting the planning of activities and recruitment for European Union-funded projects in Nigeria; in-depth revision following verification and midterm evaluation in Nigeria; difficult discussions on border control in Egypt, which led to the design of an alternative course of implementation at the end of the summer of 2015; and legislative elections held over a period of three months (October to December 2015), which led to the suspension of all technical assistance.
Subprogramme 3, Countering corruption	The deviation of $6.0 million relates mainly to lower than budgeted implementation of the global programmes against corruption, including the Stolen Assets Recovery Initiative and the Anti-Corruption Mentor Programme. It also reflects the delayed implementation of support for the projects on anti-corruption in Nigeria and on supporting measures to combat corruption and money-laundering, and to foster asset recovery, in Egypt. The reasons for lower than budgeted implementation include frequent changes in staff, affecting delivery capacity; delays caused by States in the implementation of the review mechanism component of the United Nations Convention against Corruption; less cost-intensive project delivery in Mozambique; and postponement to 2016 of some of the activities planned for late 2015 in view of the funding situation to ensure the continuity of the core activities of recurrent programmes. They also include delays in receiving the funding tranches from the donor, with the lack of cash affecting the planning of activities and recruitment for European Union-funded projects in Nigeria; and in-depth revision following verification and midterm evaluation in Nigeria.
Subprogramme 4, Terrorism prevention	The deviation of $2.1 million is due essentially to the project on strengthening legal regimes against terrorism, which faced lower than expected attendance of participants and experts at key events that had either been planned earlier than usual or cancelled altogether. In addition, an expected contribution for the Middle East and North Africa region, which had been included in the budget, was not cleared by the donor until late in the year.
Subprogramme 5, Justice	The deviation of $11.4 million relates mainly to the delayed implementation of the criminal justice component of the country programme for Afghanistan, the support for the justice sector in Nigeria, the criminal justice component of the country programme for Pakistan and phase II of the project under the Trust Fund to Support Initiatives of States Countering Piracy off the Coast of Somalia. Reasons for lower implementation include delays in capacity ramp-up owing to recruitment and high staff turnover.
Subprogramme 6, Research and trend analysis	The deviation of $18.5 million relates mainly to lower than budgeted implementation of the United Nations Interregional Crime and Justice Research Institute and the Afghan Opiate Trade Project.

Budget caption	*Material differences*
	The low implementation was caused by overbudgeting in 2015 as well as uncertainties in terms of the continuation of project implementation from 2015 to 2016 (new project needs to be created and grants approved, among other things).
Subprogramme 7, Policy support	The deviation of $1.8 million relates mainly to the change management and the communication and public information projects. The Advocacy Section has had several vacant posts and a post filled part-time, which affected implementation of the activities. The communication and public information project budget was based on funding anticipated to be received for 2015, which did not materialize.
Subprogramme 8, Technical cooperation and field support	The deviation of $3.8 million relates mainly to adjustments between unrestricted reserves and restricted reserves for special purpose costs that may need to be covered from programme support costs ($2.5 million reported under note 16).

Reconciliation between actual amounts on a comparable basis and the statement of cash flows

74. A reconciliation between the actual amounts on a comparable basis under statement V and the Office's cash flows under statement IV is set out in the table below.

Reconciliation of actual amounts on a comparable basis to the statement of cash flows, 2015

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total as at 31 December 2015*
Actual amounts on a comparable basis (statement V)	**280 297**	–	–	**280 297**
Basis differences	(306 814)	–	–	(306 814)
Entity differences	(8 323)	–	–	(8 323)
Presentation differences	(4 684)	68 574	1 112	65 002
Actual amounts in the statement of cash flows (statement IV)	**39 525**	**68 574**	**1 112**	**30 162**

Reconciliation of actual amounts on a comparable basis to the statement of cash flows, 2014

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total as at 31 December 2014*
Actual amounts on a comparable basis (statement V)	**305 675**	–	–	**305 675**
Basis differences	(269 705)	–	–	(269 705)
Entity differences	(11 504)	–	–	(11 504)
Presentation differences	(13 934)	(48 058)	(449)	(62 441)
Actual amounts in the statement of cash flows (statement IV)	**10 532**	**(48 058)**	**(449)**	**(37 975)**

75. Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the statement of cash flows, the non-cash elements such as unliquidated budgetary commitments of $34.827 million and payment against prior year budgetary commitments ($12.650 million) are included as basis differences. In addition, other IPSAS-specific differences such as the treatment of employee benefits ($6.110 million) and indirect cash flows relating to changes in receivables and accrued liabilities are included.

76. Entity differences arise when the budget includes programmes that are not part of the UNODC financial statements reporting and vice versa, such as the United Nations regular budget, which is reported under the United Nations financial statements (volume I). UNODC financial statements encompass a portion of the United Nations regular budget allocated to the administrative budget of the United Nations Office at Vienna in support of the Office's programme delivery (see note 17).

77. Presentation differences are the differences in the format and classification schemes between the statement of cash flows and the statement of comparison of budget and actual amounts. The latter does not include the changes in cash pool balances ($63.890 million). Other presentation differences are that the amounts included in the statement of comparison of budget and actual amounts are not segregated into operating, investing and financing activities such as cash flows on property, plant and equipment, including intangibles ($4.684 million).

78. Timing differences occur if the budget period differs from that of the financial statements. As the budget results under statement V reflect only the 2015 proportion of the biennium, there are no timing differences.

Note 6
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Cash pools	79 240	88 805
Cash in bank and on hand	239	17 490
Cash-in-transit	–	3 346
Total cash and cash equivalents	**79 479**	**109 641**

79. Cash and cash equivalents in cash pools consist of $73.682 million and €5.08 million.

80. Other cash and cash equivalents consist of petty cash holdings of $0.224 million and imprest cash of $0.015 million.

81. The decrease in cash and cash equivalents balances is due to the enterprise resource planning system, providing better visibility into the bank account balances and cash needs. Optimizing bank balances and transferring cash into the investment pool lead to improved interest earnings.

Note 7
Investments

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Current assets		
Investments in United States dollars cash pool	226 493	164 567
Investments in euro cash pool	1 863	7 816
Accrued investment revenue	726	–
Total current assets	**229 082**	**172 383**
Non-current assets		
Investments in United States dollars cash pool	152 460	145 269
Total non-current assets	**152 460**	**145 269**
Total	**381 542**	**317 652**

82. Investments comprise amounts held in the United Nations cash pools and comprise short-term investments and long-term investments. Cash from the cash pool is reported under cash in bank and on hand in note 6. Further investment details and an analysis of related exposure are provided in notes 20 and 21.

83. The increase in investment balances is due to the enterprise resource planning system, providing better visibility into the bank account balances and cash needs. Optimizing bank balances and transferring cash into the investment pool lead to improved interest earnings.

Note 8
Outstanding voluntary contributions receivable and other receivables

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Current voluntary contributions receivable		
Member States	118 201	103 495
Other government organizations	105 715	119 992
United Nations organizations	4 763	7 106
Private donors	1 654	1 335
Total current voluntary contributions receivable before allowance	**230 333**	**231 928**
Allowance for doubtful voluntary contributions receivable (statement I)	(10 370)	(16 416)
Total current voluntary contributions receivable (statement I)	**219 963**	**215 512**

	31 December 2015	*31 December 2014*
Non-current voluntary contributions receivable		
Member States	20 932	37 198
Other government organizations	31 476	44 179
United Nations organizations	–	154
Private donors	330	519
Total non-current voluntary contributions receivable (statement I)	**52 738**	**82 050**
Net voluntary contributions receivable	**272 701**	**297 563**
Total other receivables (statement I)	**740**	**586**

Movements in allowances for doubtful receivables

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Opening allowance for doubtful receivables	16 416	13 241
Doubtful receivables adjustment for 2015[a]	(6 046)	3 175
Closing allowance for doubtful receivables	**10 370**	**16 416**

[a] Note 24 provides further detail.

Ageing of outstanding receivables

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Neither past due nor impaired	160 497	226 290
Less than one year	87 565	57 162
One to two years	19 660	17 777
Two to three years	5 203	5 447
More than three years	10 886	7 888
Total outstanding receivables	**283 811**	**314 564**

84. The balance of outstanding voluntary contribution receivables comprises pledges earmarked for specific activities.

85. Other receivables primarily include amounts due from employees or from United Nations and other entities for goods supplied, services rendered and operating lease arrangements.

86. All pledges that are outstanding for more than one year are reviewed and an allowance is created for those that may be deemed irrecoverable.

Note 9
Loans and advances to implementing partners

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Current		
United Nations entities	7 129	7 100
Specialized agencies	699	749
Other external parties	7 195	15 253
Total current advances to implementing partners	**15 023**	**23 102**
Non-current		
Other external parties	–	3 010
Total non-current advances to implementing partners	**–**	**3 010**

87. Loans and advances to implementing partners include funds issued to the implementing partners responsible for delivering programmes on behalf of UNODC. Advances are issued based on established agreements and expensed when either the service delivery is confirmed through the submission of certified financial reports by the partners or, in the absence of reports, UNODC estimates an accrual for programme delivery after consultation with the responsible UNODC unit.

88. Included under United Nations entities are $0.334 million with the United Nations Office for Project Services, $6.780 million with UNDP and $0.015 million with the United Nations Children's Fund. Included under specialized agencies are $0.326 million with the World Health Organization, $0.339 million with the World Customs Organization and $0.034 million with the International Organization for Migration. Included under other external parties is $5.402 million with various implementing partners to support the implementation and monitoring of an integrated and sustainable strategy to reduce illicit crops and promote alternative development and a culture of legality in Colombia; $0.905 million of advances to various implementing partners of the United Nations Interregional Crime and Justice Research Institute, mainly for the projects on strengthening biosafety and biosecurity capabilities in the South Caucasus and Central Asian countries, on implementing the action plan on strengthening chemical, biological, radiological and nuclear security and on enhancing European coordination for national research programmes in the area of security at major events; $0.270 million with the Aga Khan Foundation; $0.270 million with Mercy Corps; and $0.348 million with the Danish Committee for Aid to Afghan Refugees.

Note 10
Other assets

(Thousands of United States dollars)

	31 December 2015	*31 December 2014 (restated)*
Current		
Inter-Secretariat receivables	–	590
Advances to vendors	202	172
Advances to staff	1 603	1 399
Other	411	1 168
Total current other assets	**2 216**	**3 329**
Non-current		
Other	–	156
Total non-current other assets	**–**	**156**

89. The 2014 comparatives have been restated to reflect the treatment of end-of-service liabilities for regular budget staff. The restatement reflects a movement of $37.985 million from non-current other assets to net assets. Note 16 provides further detail.

90. Other assets include education grant advances and prepayments that are expensed when goods are delivered or services rendered by the other party.

Note 11
Property, plant and equipment

91. The movements and balances for the property, plant and equipment of UNODC as at 31 December 2015 are provided below.

Movements and balances for property, plant and equipment, 2015

(Thousands of United States dollars)

	Buildings	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Machinery and equipment*	*Assets under construction*	*Total*
Cost as at 1 January 2015	**486**	**77**	**1 668**	**8 314**	**2 160**	**6 005**	**18 710**
Additions	–	–	121	1 309	573	2 590	4 593
Disposals[a]	(3 450)	(20)	(425)	(1 106)	(788)	–	(5 789)
Completed assets under construction	3 080	–	–	–	–	(3 080)	–
Other changes	244	–	(218)	265	12	(80)	223
Cost as at 31 December 2015	**360**	**57**	**1 146**	**8 782**	**1 957**	**5 435**	**17 737**
Accumulated depreciation as at 1 January 2015	**206**	**1**	**744**	**5 010**	**347**	**–**	**6 308**
Depreciation	51	15	255	697	122	–	1 140
Disposals	(6)	–	(29)	(117)	(15)	–	(167)
Other changes	–	(1)	(280)	207	11	–	(63)
Accumulated depreciation as at 31 December 2015	**251**	**15**	**690**	**5 797**	**465**	**–**	**7 218**
Carrying amount							
1 January 2015	280	76	924	3 304	1 813	6 005	12 402
31 December 2015	**109**	**42**	**456**	**2 985**	**1 492**	**5 435**	**10 519**

[a] Disposals include the assets transferred to end beneficiaries as part of UNODC programme delivery. See note 24.

Movements and balances for property, plant and equipment, 2014

(Thousands of United States dollars)

	Buildings	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Machinery and equipment*	*Assets under construction*	*Total*
Cost as at 1 January 2014	**2 105**	**20**	**1 080**	**7 894**	**1 486**	**6 155**	**18 740**
Additions	14	57	640	2 224	1 635	8 849	13 419
Disposals[a]	(10 954)	–	(31)	(1 853)	(961)	–	(13 799)
Completed assets under construction	8 999	–	–	–	–	(8 999)	–
Other changes	322	–	(21)	49	–	–	350
Cost as at 31 December 2014	**486**	**77**	**1 668**	**8 314**	**2 160**	**6 005**	**18 710**
Accumulated depreciation as at 1 January 2014	**11**	**–**	**592**	**4 566**	**238**	**–**	**5 407**
Depreciation	53	1	172	758	109	–	1 093
Disposals	–	–	(9)	(360)	–	–	(369)
Other changes	142	–	(11)	46	–	–	177
Accumulated depreciation as at 31 December 2014	**206**	**1**	**744**	**5 010**	**347**	**–**	**6 308**
Carrying amount							
1 January 2014	2 094	20	488	3 328	1 248	6 155	13 333
31 December 2014	**280**	**76**	**924**	**3 304**	**1 813**	**6 005**	**12 402**

[a] Disposals include the assets transferred to end beneficiaries as part of UNODC programme delivery. See note 24.

92. As at the end of 31 December 2015, UNODC holds a total of $10.519 million in property, plant and equipment. The reduction of $1.883 million of property, plant and equipment holdings from the prior period is mainly attributable to the delivery of project assets to the beneficiaries upon completion of construction.

93. As part of its programme delivery, UNODC enters into construction works such as the building of prisons, police stations and courthouses for the benefit of Member States. Once completed, these assets are handed over to the local governments, and the ownership of the property is then fully transferred. During 2015, construction projects in the amount of $3.080 million were transferred to the beneficiaries. The ongoing construction projects amounting to $5.435 million as at the end of 2015 are anticipated to be completed in 2016 and beyond and then handed over to the beneficiaries.

Note 12
Intangibles

94. As part of UNODC programme delivery, UNODC has developed several software products, namely, goAML, goCase and goPRS. These software products are currently under service level agreements with the Member States and other international organizations for the use and maintenance of the software.

95. During 2015, the development phase of all software products was completed, and therefore software products are capitalized as final assets ($0.608 million). As at the end of 2015, the value of completed software is $0.508 million.

Note 13
Accounts payable and accrued expenses

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Vendor payables	6 554	2 552
Payables to other Secretariat reporting entities	2 969	4 731
Accruals for goods and services	14 764	13 210
Other	13 578	10 219
Total accounts payable and accrued expenses	**37 865**	**30 712**

96. Accounts payable and accrued expenses represent amounts owed to government agencies, individuals, including staff members, and donors for closed projects. Other expenses of $13.578 million include $10.508 million in refunds of the unspent balance to donors and $1.818 million in payments to be made to individual externals.

Note 14
Advance receipts

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Current		
European Union	130 553	135 707
Others	6 502	4 250
Total current advance receipts	**137 055**	**139 957**
Non-current		
European Union	32 635	44 100
Others	–	158
Total non-current advance receipts	**32 635**	**44 258**
Total advance receipts	**169 690**	**184 215**

97. Advance receipts consist of cash collected in the amount of $5.608 million in advance for exchange transactions, cash collected for non-exchange transactions in the amount of $41.253 million and uncollected amounts for non-exchange transactions of $122.829 million, for which there is a corresponding voluntary contribution receivable.

Note 15
Employee benefits liabilities

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Current		
Accrued salaries and allowances	1 782	769
Annual leave	598	764
After-service health insurance	621	1 240
Repatriation benefits	1 324	788
Current employee benefits (statement I)	**4 325**	**3 561**
Non-current		
Annual leave	6 281	7 454
After-service health insurance	74 210	92 981
Repatriation benefits	12 991	10 847
Other end-of-service allowances[a]	4 097	4 222
Non-current employee benefits (statement I)	**97 579**	**115 504**
Total employee benefits	**101 904**	**119 065**

[a] Upon separation, certain staff in Vienna and Italy are entitled to end-of-service allowances based on local employment regulations.

98. After-service health insurance is a United Nations-wide plan that provides worldwide coverage for medical expenses of eligible retirees and their dependants. The plan is a defined benefit scheme, membership is optional and eligibility is based on factors such as years of participation in a United Nations health plan while in service. The liabilities are based on actuarial valuations and represent the present value of the share of the Office's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff.

99. With regard to repatriation benefits, staff meeting certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to the repatriation grant and travel and removal expenses. Such liabilities are calculated based on actuarial valuations and confirmed eligibility.

100. Actuarial valuations are usually undertaken every two years. The most recent actuarial valuation was conducted for the period ended 31 December 2015. The post-employment benefits for the end-of-service allowance for General Service staff are calculated internally at UNODC.

101. UNODC began the funding of after-service health insurance liabilities on its voluntary funded activity by levying an assessment of 9 per cent of the net base salary with effect from December 2012, and since 1 January 2015 it has levied an assessment of 11 per cent of the net base salary.

102. The 2015 actuarial valuation reports a net actuarial gain of $22.310 million, representing a gain of $24.419 million on after-service health insurance and a loss of $2.109 million on the repatriation grant. The main movements on after-service health insurance include:

(a) A net gain of $8.591 million on the financial assumptions for after-service health insurance, comprising a gain of $13.904 million as a result of a decrease of the (non-United States) medical inflation rate and a loss of $5.313 million as a result of a lower discount rate;

(b) A net gain from after-service health insurance experience adjustments of $14.699 million, comprising a loss of $8.968 million within the non-regular budget and a gain of $23.667 million from the regular budget owing mainly to improved estimates of final benefits.

Movements in employee benefits liabilities accounted for as defined benefit plans

(Thousands of United States dollars)

	As at 31 December 2015			*As at 31 December 2014*		
	After-service health insurance	*Repatriation grant*	*Total*	*After-service health insurance*	*Repatriation grant*	*Total*
Opening defined benefit obligation	94 221	11 635	105 856	64 056	10 463	74 519
Current service cost	3 876	867	4 743	3 446	939	4 385
Interest cost	1 433	306	1 739	2 838	430	3 268
Actual benefits paid	(280)	(602)	(882)	(1 128)	(935)	(2 063)
Actuarial (gains)/losses	(24 419)	2 109	(22 310)	25 009	738	25 747
Subtotal	**74 831**	**14 315**	**89 146**	**94 221**	**11 635**	**105 856**

	As at 31 December 2015			*As at 31 December 2014*		
	After-service health insurance	*Repatriation grant*	*Total*	*After-service health insurance*	*Repatriation grant*	*Total*
Other end-of-service allowances			4 097			4 222
Total defined benefit liabilities			**93 243**			**110 078**
Current			1 945			2 028
Non-current			91 298			108 050
Total			**93 243**			**110 078**

Discount rate sensitivity analysis

(Thousands of United States dollars)

	After-service health insurance	*Repatriation grant*	*Annual leave*
Increase of discount rate by 1 per cent	(16 065)	(1 391)	(629)
As a percentage of end-of-year liability	(21)	(10)	(9)
Decrease of discount rate by 1 per cent	22 300	1 574	1 738
As a percentage of end-of-year liability	30	11	11

103. In accordance with the actuarial report, the effect of an increase/decrease of one percentage point in the assumed medical cost trend is shown in the table above.

104. The changes in discount rates are driven by the discount curve, which is calculated based on corporate or government bonds. The bond markets vary over the reporting year and the volatility affects the discount rate assumption.

United Nations Joint Staff Pension Fund

105. The Regulations of the United Nations Joint Staff Pension Fund state that the Pension Board is to have an actuarial valuation of the Fund made at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Fund will be sufficient to meet its liabilities.

106. The Office's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently 7.90 per cent for participants and 15.80 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. Each member organization is to contribute to that deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

107. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (compared with 1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The next actuarial valuation was conducted for 31 December 2015; however, the results of the valuation were not available as at the reporting date.

108. As at 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.50 per cent (compared with 130.00 per cent in the 2011 valuation). The funded ratio was 91.20 per cent (compared with 86.20 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

109. After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2013, for deficiency payments under article 26 of the Regulations of the Fund, because the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

110. In December 2012 and April 2013, the General Assembly authorized an increase to 65 years in the normal retirement age and the mandatory age of separation for new participants in the Pension Fund, with effect not later than from 1 January 2014. The related change to the Regulations of the Fund was approved by the Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as at 31 December 2013. The Board of Auditors carries out an annual audit of the Fund and reports to the Pension Board on the audit every year. The Fund publishes quarterly reports on its investments.

111. In 2015, the Office's contributions to the Pension Fund amounted to $11.306 million (2014: $11.627 million).

Impact of General Assembly resolutions on staff benefits

112. On 23 December 2015, the General Assembly adopted resolution 70/244, by which it approved certain changes to the conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission. Some of the changes that may have an impact on the calculation of other long-term and end-of-service employee benefits liabilities are shown in the table below.

Change	*Details*
Increase in mandatory age of separation	The mandatory age of retirement for staff who joined the United Nations on or after 1 January 2014 is 65 years; for those who joined before 1 January 2014, it is 60 or 62 years. The General Assembly decided to extend the mandatory age of separation to 65 years for staff recruited by organizations of the United Nations common system before 1 January 2014, at the latest by 1 January 2018, taking into account the acquired rights of staff. Once implemented, this change is expected to have an impact on future calculations of employee benefits liabilities.
Unified salary structure	The current salary scales for internationally recruited staff (Professional and Field Service) are based on single or dependency rates, which affect the staff assessment and post adjustment amounts. The General Assembly has approved a unified salary scale that eliminates single and dependency rates. The dependency rate will be replaced by allowances for staff members who have recognized dependants in accordance with the Staff Regulations and Rules of the United Nations. The revised staff assessment and pensionable remuneration scales will be implemented along with the unified salary structure. The implementation of the unified salary scale is planned for 1 January 2017 and is not designed to result in reduced payments for staff members. It is expected, however, that once implemented, it will have an impact on the calculation and valuation of the repatriation benefit and the commuted annual leave benefit. Currently, the repatriation benefit is calculated on the basis of gross salary and staff assessment at the date of separation, whereas commuted annual leave is calculated on the basis of gross salary, post adjustment and staff assessment at the date of separation.
Repatriation benefit	Staff members are eligible to receive a repatriation grant upon separation provided they have been in service for at least one year in a duty station outside their country of nationality. The General Assembly has revised the eligibility for the repatriation grant from one year to five years for prospective employees, while current employees retain the one-year eligibility. Once implemented, this change is expected to have an impact on future calculations of employee benefit liabilities.

113. As at the reporting date, the necessary information regarding implementation of the proposed changes was not available. Therefore, the Office is not able to perform a detailed impact analysis of the proposed changes on employee benefits liabilities for the 2015 financial period. In accordance with the requirements of IPSAS 1: Presentation of financial statements, the Office will determine such impact when the relevant implementation information becomes available, anticipated by mid-2016; where material, appropriate adjustments and or disclosures will be made in the financial statements for 2016.

Note 16
Net assets

(Thousands of United States dollars)

	Accumulated surpluses (deficit), unrestricted	*Accumulated surpluses (deficit), restricted*	*Total*
Restated net assets as at 31 December 2014	**(12 707)**	**446 433**	**433 726**
Change in net assets			
Actuarial gain on employee benefits	21 131	3 023	24 154
Other adjustments to net assets	(4 642)	3 530	(1 112)
Surplus/(deficit) for the year	1 492	(5 255)	(3 763)
Total changes in net assets	**17 981**	**1 298**	**19 279**
Net assets as at 31 December 2015	**5 274**	**447 731**	**453 005**

114. The unrestricted balances consist of unearmarked project fund balances and the regular budget.

115. The restricted balances consist of fund balances from donor contributions earmarked to specific activities and actuarial gains and losses on employee benefits.

116. The 2014 opening net assets have been restated by $37.985 million to reflect the derecognition of receivable balances contained within "other assets" that had been accrued in respect of the funding for regular budget employee liabilities transferred to the Secretariat in 2014. After-service health insurance obligations on the regular budget are funded on a pay-as-you-go basis, consistent with the treatment of these liabilities across the Secretariat. The funding of these liabilities will be re-evaluated in the event of the General Assembly adopting any resolutions on the longer-term funding arrangements for these liabilities.

117. The net unrestricted balance of $5.274 million consists of unearmarked project fund balances of $36.444 million (2014: $25.278 million) and a negative balance of $31.170 million (2014: negative $37.985 million) representing the unfunded end-of-service liability originating from the regular budget.

118. Other adjustments to net assets comprise $4.522 million in transfers between restricted and unrestricted funds, $0.121 million in transfers to Headquarters for the assets and liabilities from the regular budget fund and adjustments of $0.992 million from three UNODC projects that are now treated as exchange transactions where liabilities are recorded.

Note 17
Regular budget allocation

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Revenue		
United Nations regular budget allocation	29 003	31 016
Expenditure		
Direct programme activities	21 470	22 608
Support (administrative) activities	7 533	8 197
Total expenditure	**29 003**	**30 805**
Excess of income over expenditure	–	**211**

119. UNODC efforts financed by the United Nations regular budget encompass direct programme activities, namely, executive direction and management, research, normative work, secretariat support to the intergovernmental bodies and the Commissions and substantive support to the International Narcotics Control Board.

120. Support activities represent administrative services, including finance, human resources and procurement, provided by the United Nations Office at Vienna to UNODC under section 29 of the regular budget. Activities under this caption represent 29.8 per cent of the total administrative budget of the United Nations Office at Vienna. The remainder of administrative operations of the United Nations Office at Vienna (70.2 per cent) supports other Secretariat entities residing in Vienna. The expenses and allocation recognized consists of $20.206 million under section 16, $0.684 million under section 23, $5.130 million under section 29, $0.125 million under section 35 and $2.858 million under section 36.

Note 18
Voluntary contributions

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Voluntary monetary contributions		
Member States	195 911	223 416
Other government organizations	41 570	58 215
United Nations organizations	8 726	8 605
Private donors	2 850	2 169
Total voluntary monetary contributions (annex I)	**249 057**	**292 405**
Total voluntary in-kind contributions	1 087	1 816
Refund to donors	(11 451)	(4 218)
Total voluntary contributions	**238 693**	**290 003**

	31 December 2015	*31 December 2014*
Voluntary monetary contributions		
Unrestricted	4 306	7 177
Restricted	244 751	285 228
Total voluntary monetary contributions	**249 057**	**292 405**

121. Voluntary in-kind contributions reflect primarily donated rights to use for premises for UNODC field offices, typically provided by governments.

122. Restricted voluntary contributions relate to funds that are earmarked to specific UNODC projects.

Services in kind

123. In-kind contributions of services received during the year are not recognized as revenue and are therefore not included in the above in-kind contribution revenue. The value of in-kind satellite imaging and transport expenses provided to the Office was $0.594 million.

Note 19
Exchange revenue

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Software support and maintenance fees	2 391	2 290
Training fees	373	459
Other supportive services	1 694	431
Consultancy services	–	3
Total exchange revenue	**4 458**	**3 183**

124. Revenue-producing activities mainly consist of the provision of software support and maintenance, the training of individuals and other support services to UNODC governing bodies.

Note 20
Financial instruments and financial risk management

(Thousands of United States dollars)

Financial instruments	*Reference*	*31 December 2015*	*31 December 2014*
Financial assets			
Fair value through the surplus or deficit			
Short-term investments: cash pools	Note 7	228 356	172 383
Total short-term investments		**228 356**	**172 383**
Long-term investments: cash pools	Note 7	152 460	145 269
Total long-term investments		**152 460**	**145 269**
Total fair value through the surplus or deficit investments		**380 816**	**317 652**
Loans and receivables			
Cash and cash equivalents	Note 6	79 479	109 641
Accrued investment revenue	Note 7	726	–
Voluntary contributions (current)	Note 8	219 963	231 928
Voluntary contributions (non-current)	Note 8	52 738	65 634
Other assets (excludes deferred charges)		97	39 025
Other receivables	Note 8	740	586
Total loans and receivables		**353 743**	**446 814**
Total carrying amount of financial assets		**734 559**	**764 466**
Of which relates to financial assets held in cash pools[a]	Note 21	460 782	406 457
Financial liabilities at amortized cost			
Accounts payable and accrued payables	Note 13	37 865	30 712
Transfers payable		–	237
Total carrying amount of financial liabilities		**37 865**	**30 949**
Summary of net income from cash pools			
Cash pools investment revenue		2 566	2 265
Cash pools foreign exchange losses		(1 835)	(1 454)
Cash pools unrealized losses		(811)	(126)
Cash pools interest and gains		**(80)**	**685**
Cash pools bank fees		(2)	–
Net cash pool income		**(82)**	**685**
Other investment income[b]		427	296
Total net income from financial instruments		**345**	**981**

Financial instruments	*Reference*	*31 December 2015*	*31 December 2014*
Add back cash pools foreign exchange losses		1 835	1 454
Add back cash pools bank fees		2	–
Total investment revenue		**2 182**	**2 435**

[a] Includes only cash pool funds under UNODC business area.
[b] Not related to cash pool income.

Financial risk management: overview

125. The Office has exposure to the following financial risks: credit risk, liquidity risk and market risk.

126. This note presents information on the Office's exposure to these risks; the objectives, policies and processes for measuring and managing risk; and the management of capital.

Financial risk management: risk management framework

127. The Office's risk management practices are in accordance with the Financial Regulations and Rules and the United Nations Investment Management Guidelines (the Guidelines). The Office defines the capital that it manages as the aggregate of its net assets, which comprises accumulated fund balances and reserves. Its objectives are to safeguard its ability to continue as a going concern, to fund its asset base and to accomplish its objectives. The Office manages its capital in the light of global economic conditions, the risk characteristics of the underlying assets and its current and future working capital requirements.

Financial risk management: credit risk

128. Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, investments and deposits with financial institutions, as well as credit exposures to outstanding receivables. The carrying value of financial assets less allowances for doubtful receivables is the maximum exposure to credit risk.

Credit risk management

129. The investment management function is centralized at Headquarters, and other areas are not permitted in normal circumstances to engage in investing. An area may receive exceptional approval when conditions warrant investing locally under specified parameters that comply with the Guidelines.

Credit risk: contributions receivable and other receivables

130. A large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities that do not have significant credit risk. As at the reporting date, the Office does not hold any collateral as security for receivables.

Credit risk: allowance for doubtful receivables

131. The Office evaluates the allowance for doubtful receivables at each reporting date. An allowance is established when there is objective evidence that the Office will not collect the full amount due. Balances credited to the allowance for doubtful receivables account are utilized when management approves write-offs under the Financial Regulations and Rules or are reversed when previously impaired receivables are received. The movement in the allowances account during the year is shown in note 8.

Credit risk: cash and cash equivalents

132. The Office had cash and cash equivalents of $79.5 million as at 31 December 2015, which is the maximum credit exposure on these assets.

Financial risk management: liquidity risk

133. Liquidity risk is the risk that the Office might not have adequate funds to meet its obligations as they fall due. The Office's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Office's reputation.

134. The Financial Regulations and Rules require that expenses be incurred after receipt of funds from donors, thereby considerably reducing the liquidity risk with regard to contributions. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk management criteria are adhered to with regard to the amounts receivable.

135. The Office performs cash flow forecasting and monitors rolling forecasts of liquidity requirements to ensure that it has sufficient cash to meet operational needs. Investments are made with due consideration to the cash requirements for operating purposes based on cash flow forecasting. The Office maintains a large portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due.

Liquidity risk: financial liabilities

136. The exposure to liquidity risk is based on the notion that the entity may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely owing to receivables, cash and investments available to the entity and internal policies and procedures put in place to ensure that there were appropriate resources to meet its financial obligations. As at the reporting date, the Office has not pledged any collateral for any liabilities or contingent liabilities, and in the year no accounts payable or other liabilities were forgiven by third parties. Maturities for financial liabilities based on the earliest date at which the Office can be required to settle each financial liability are shown in the table below.

Maturities for financial liabilities as at 31 December 2015

(Undiscounted thousands of United States dollars)

	3 months	*3 to 12 months*	*1 year*	*Total*
Accounts payable and accrued expenses	37 865	–	–	37 865
Total	**37 865**	**–**	**–**	**37 865**

Financial risk management: market risk

137. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices of investment securities, will affect the Office's income or the value of its financial assets and liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the Office's fiscal position.

Market risk: interest rate risk

138. Interest rate risk is the risk of variability in financial instruments' fair values or future cash flows owing to changes in interest rates. In general, as interest rates rise, the price of a fixed-rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed-rate security's duration, with duration being a number expressed in years. The longer the duration, the greater the interest rate risk. The main exposure to interest rate risks relates to the cash pools and is considered in note 21.

Market risk: currency risk

139. Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate owing to changes in foreign exchange rates. The Office has transactions, assets and liabilities in currencies other than its functional currency and is exposed to currency risk arising from fluctuations in exchange rates. Management policies and the Guidelines require the Office to manage its currency risk exposure.

140. The Office's financial assets and liabilities are primarily denominated in United States dollars. Non-United States dollar financial assets relate primarily to investments in addition to cash and cash equivalents and receivables held in order to support local operating activities where transactions are made in local currencies. The Office maintains a minimum level of assets in local currencies and, whenever possible, maintains bank accounts in United States dollars. The Office mitigates currency risk exposure by structuring contributions from donors in foreign currency to correspond to the foreign currency needs for operational purposes. National law in Colombia restricts the transfer of contributions collected in Colombia to outside the country.

141. The most significant exposure to currency risk relates to cash-pool cash, cash equivalents and voluntary contributions. As at the reporting date, the non-United States dollar denominated balances in these financial assets were primarily euros and Colombian pesos.

Currency exposure as at 31 December 2015

(Thousands of United States dollars)

	United States dollars	*Euros*	*Others*	*Total*
Short-term investments	226 493	1 863	–	228 356
Long-term investments	152 460	–	–	152 460
Cash and term deposits in cash pools	73 682	5 558	–	79 240
Accrued investment revenue	726	–	–	726
Subtotal, cash pool	**453 361**	**7 421**	**–**	**460 782**
Cash and cash equivalents	146	5	88	239
Other assets	8	–	89	97
Other receivables (excluding prepayments)	–	–	669	669
Voluntary contributions	129 856	126 284	26 931	283 071
Total	**583 371**	**133 710**	**27 777**	**744 858**

Currency risk: sensitivity analysis

142. A strengthening/weakening of the euro exchange rate as at 31 December 2015 would have affected the measurement of investments denominated in a foreign currency and increased/decreased net assets and surplus or deficit by the amounts shown in the table below. This analysis is based on foreign currency exchange rate variances considered to be reasonably possible as at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

Currency exposure sensitivity analysis as at 31 December 2015

(Thousands of United States dollars)

	Net assets surplus or deficit	
	Strengthening	*Weakening*
Euro (10 per cent movement)	13 371	(13 371)
Other (10 per cent movement)	2 777	(2 777)

Market risk: other market

143. The Office is not exposed to significant other price risk, as it has limited exposure to price-related risk linked to expected purchases of certain commodities used regularly in operations. A change in those prices may alter cash flows by an immaterial amount.

Accounting classifications and fair value

144. Owing to the short-term nature of cash and cash equivalents, including cash pool term deposits, receivables and payables, carrying value is a fair approximation of fair value. The carrying value of investments carried at fair value through surplus

or deficit is fair value and, as these are predominantly cash pool assets, the fair value hierarchy is presented in note 21, Financial instruments: cash pools.

Note 21
Financial instruments: cash pools

145. In addition to directly held cash and cash equivalents and investments, UNODC participates in the United Nations Treasury cash pools. Pooling the funds has a positive effect on overall investment performance and risk because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

146. The Office participates in two United Nations Treasury-managed cash pools:

(a) The main pool, which comprises operational bank account balances in a number of currencies and investments in United States dollars;

(b) The euro pool, which comprises investments in euros. The pool participants are mostly offices of the Secretariat away from Headquarters that may have a surplus of euros from their operations.

147. As at 31 December 2015, the cash pools held total assets of $7,827.449 million (2014: $9,608.753 million), of which $460.795 million was due to the Office (2014: $406.456 million). The Office's share of loss from cash pools was $0.082 million.

Summary of assets and liabilities of the cash pools

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total as at 31 December 2015*	*Main pool*	*Euro pool*	*Total as at 31 December 2014*
Fair value through the surplus or deficit						
Short-term investments	3 888 712	10 941	3 899 653	3 930 497	97 011	4 027 508
Long-term investments	2 617 626	–	2 617 626	3 482 641	–	3 482 641
Total fair value through the surplus or deficit investments	**6 506 338**	**10 941**	**6 517 279**	**7 413 138**	**97 011**	**7 510 149**
Loans and receivables						
Cash and cash equivalents	1 265 068	32 637	1 297 705	2 034 824	48 819	2 083 643
Accrued investment revenue	12 462	3	12 465	14 842	119	14 961
Total loans and receivables	**1 277 530**	**32 640**	**1 310 170**	**2 049 666**	**48 938**	**2 098 604**
Total carrying amount of financial assets	**7 783 868**	**43 581**	**7 827 449**	**9 462 804**	**145 949**	**9 608 753**
Cash pool liabilities						
Payable to UNODC	453 374	7 421	460 795	394 712	11 744	406 456
Payable to other cash pool participants	7 330 494	36 160	7 366 654	9 068 092	134 205	9 202 297
Total liabilities	**7 783 868**	**43 581**	**7 827 449**	**9 462 804**	**145 949**	**9 608 753**
Net assets	–	–	–	–	–	–

Summary of revenue and expenses of the cash pools

(Thousands of United States dollars)

	Main pool	*Euro pool*	*Total for the year ended 31 December 2015*	*Main pool*	*Euro pool*	*Total for the year ended 31 December 2014*
Investment revenue	51 944	48	51 992	62 511	132	62 643
Foreign exchange losses	(11 720)	(15 300)	(27 020)	(7 064)	(14 396)	(21 460)
Unrealized losses	(10 824)	(4)	(10 828)	(3 084)	9	(3 075)
Bank fees	(525)	–	(525)	(214)	(2)	(216)
Revenue from cash pools	**28 875**	**(15 256)**	**13 619**	**52 149**	**(14 257)**	**37 892**

Financial risk management

148. The United Nations Treasury is responsible for investment and risk management for the cash pools, including conducting investment activities in accordance with the Guidelines.

149. The objective of investment management is to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market rate of return component of the objectives.

150. An investment committee periodically evaluates investment performance and assesses compliance with the Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

151. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible cash pool investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The cash pools do not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

152. The Guidelines require that investments are not to be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

153. The credit ratings used for the cash pools are those determined by major credit-rating agencies; the ratings of Standard & Poor's (S&P), Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. At year-end, the credit ratings were as shown in the table below.

Investments of the cash pools by credit ratings as at 31 December

(Percentage)

Main pool	*Ratings as at 31 December 2015*			*Ratings as at 31 December 2014*			
Bonds (long-term ratings)							
	AAA	*AA+/AA/AA-*	*NR*	*AAA*	*AA+/AA/AA-*	*A+*	*NR*
S&P	37.7	54.2	8.1	31.2	59.8	1.3	7.7
Fitch	61.9	26.5	11.6	52.2	21.4	–	26.4
	Aaa	*Aa1/Aa2/Aa3*		*Aaa*	*Aa1/Aa2/Aa3*		
Moody's	65.8	34.2	–	69.3	30.7	–	–
Commercial papers (short-term ratings)							
	A-1+			*A-1+*			*NR*
S&P	100.0			100.0			–
	F1+			*F1+*			
Fitch	100.0			90.0			10.0
	P-1			*P-1*			
Moody's	100.0			76.0			30.0
Reverse repurchase agreement (short-term ratings)							
	A-1+						
S&P	100.0			No reverse repurchase agreements were held as at 31 December 2014			
	F1+						
Fitch	100.0						
	P-1						
Moody's	100.0						
Term deposits (Fitch viability ratings)							
	aaa	*aa/aa-*	*a+/a*	*aaa*	*aa/aa-*	*a+/a*	
Fitch	–	53.6	46.4	–	64.1	35.9	

Euro pool	*Ratings as at 31 December 2015*			*Ratings as at 31 December 2014*			
Bonds (long-term ratings)							
				AAA	*AA+*		*NR*
S&P	No bonds were held as at 31 December 2015			–	100.0		–
Fitch				–	–		100.0
				Aaa	*Aa1*		
Moody's				100.0	–		–
Term deposits (Fitch viability ratings)							
	aaa	*aa/aa-*	*a+*	*aaa*	*aa-*	*a+/a/a-*	
Fitch	–	–	100.0	–	22.1	77.9	

Abbreviation: NR, not rated.

154. The United Nations Treasury actively monitors credit ratings and, given that the Office has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

155. The cash pools are exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. They maintain sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments is available within one day's notice to support operational requirements. The cash pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

156. The cash pools comprise the Office's main exposure to interest rate risk, with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the cash pools had invested primarily in securities with shorter terms to maturity, with the maximum being less than five years (2014: five years). The average durations of the main pool and the euro pool were 0.86 years (2014: 1.10 years) and 0.21 years (2014: 0.22 years) respectively, which is considered to be an indicator of low risk.

Cash pools interest rate risk sensitivity analysis

157. The analysis shown in the table below illustrates how the fair value of the cash pools as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. Given that the investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease in the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Cash pools interest rate risk sensitivity analysis as at 31 December 2015

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*50*	*100*	*150*	*200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool total	128.99	96.74	64.48	32.24	–	(32.23)	(64.46)	(96.69)	(128.91)
Euro pool total	0.04	0.03	0.02	0.01	–	(0.01)	(0.02)	(0.03)	(0.04)
Total	**129.03**	**96.77**	**64.50**	**32.25**	**–**	**(32.24)**	**(64.48)**	**(96.72)**	**(128.95)**

Cash pools interest rate risk sensitivity analysis as at 31 December 2014

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool total	205.45	154.08	102.71	51.35	–	(51.34)	(102.67)	(154.00)	(205.31)
Euro pool total	0.61	0.49	0.37	0.12	–	(0.12)	(0.37)	(0.49)	(0.61)
Total	**206.06**	**154.57**	**103.08**	**51.47**	–	**(51.46)**	**(103.04)**	**(154.49)**	**(205.92)**

Other market price risk

158. The cash pools are not exposed to significant other price risks because they do not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value hierarchy

159. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

160. The levels are defined as:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

(c) Level 3: inputs for the asset or liabilities that are not based on observable market data (that is, unobservable inputs).

161. The fair value of financial instruments traded in active markets is based on quoted market prices as at the reporting date and is determined by the independent custodian based on the valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held in the cash pools is the current bid price.

162. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques that maximize the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

163. The fair value hierarchy shown in the table below presents the cash pool assets that are measured at fair value as at the reporting date. There were no level 3 financial assets nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy for investments as at 31 December: cash pools

(Thousands of United States dollars)

	31 December 2015			31 December 2014		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds: corporates	149 682	–	149 682	–	–	–
Bonds: non-United States agencies	2 190 965	–	2 190 965	2 154 956	–	2 154 956
Bonds: non-United States sovereigns	124 612	–	124 612	691 489	–	691 489
Bonds: supranational	139 828	–	139 828	440 169	–	440 169
Bonds: United States treasuries	1 092 139	–	1 092 139	1 297 290	–	1 297 290
Main pool: commercial papers	949 112	–	949 112	999 234	–	999 234
Main pool: term deposits	–	1 860 000	1 860 000	–	1 830 000	1 830 000
Main pool total	**4 646 338**	**1 860 000**	**6 506 338**	**5 583 138**	**1 830 000**	**7 413 138**
Euro pool – bonds: non-United States sovereigns	–	–		6 157	–	6 157
Euro pool: term deposits	–	10 941	10 941	–	90 854	90 854
Euro pool total	**–**	**10 941**	**10 941**	**6 157**	**90 854**	**97 011**
Total cash pools	**4 646 338**	**1 870 941**	**6 517 279**	**5 589 295**	**1 920 854**	**7 510 149**

Note 22
Employee salaries, allowances and benefits and non-employee compensation and allowances

(Thousands of United States dollars)

Employee salaries, allowances and benefits	*2015*	*2014*
Salaries	63 382	73 053
Pension contributions	11 306	11 627
Medical insurance, current	1 284	1 550
Other personnel costs and allowances	9 634	10 093
End-of-service actuarial valuation	7 585	6 429
Total	**93 191**	**102 752**

Non-employee compensation and allowances	*2015*	*2014*
Individual contractors	35 110	37 301
Consultants and other non-employee compensations	15 825	11 875
Total	**50 935**	**49 176**

164. Employee salaries, allowances and benefits include salaries, post adjustments, entitlements, pensions, health plans and travel costs relating to home leave, education grant, assignment, separation and annual leave.

165. The decrease in employee salaries, allowances and benefits compared with the previous year is attributable mainly to the salaries of international staff owing to the reduction of the post adjustment rate, with significant fluctuation in the euro exchange rate.

166. Non-employee costs refer to contracted services from individuals on the basis of time or delivery of defined outputs. Such contracts do not carry employment benefits made available to United Nations employees.

Note 23
Grants and other transfers

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Other transfers (implementing partners)	18 995	38 244
Grants and other end beneficiaries	34 016	35 627
Total	**53 011**	**73 871**

167. Other transfers to implementing partners relate to programmatic delivery executed on behalf of UNODC by other organizations. The amount of $18.995 million represents the work delivered for the year 2015 on the basis of certified financial reports provided by the implementing partners (see table above). In the absence of certified reports, UNODC estimated the work performed by reference to the duration of the agreement and in consultation with the responsible programme managers. Related outstanding advances, namely, cash transfers given to implementing partners for which work had yet to be delivered as at 31 December 2015, are shown as loans and advances to implementing partners in statement I. Within the total of $18.995 million for programmatic delivery by implementing partners, $10.012 million relates to awards to farming cooperatives under the alternative livelihoods programmes in Colombia. The reduction in implementation is due to a revision of the existing alternative development policy by the Government of Colombia.

168. Grants and other end beneficiary expenses of $34.016 million represent $9.083 million given to non-governmental organizations under authorized small grant programmes and $24.933 million to individual end beneficiaries for training and fellowship programmes. The 2014 expenses of $35.627 million include $5.636 million in grants and $29.991 million in payments to individual end beneficiaries that were reported under a separate expense line.

Note 24
Other operating expenses

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Bad debt expense: voluntary contributions	11 049	6 195
Expense recognized for contributions in kind: plant and equipment	2 326	2 455
Expense recognized for contributions in kind: premises (note 11)	3 080	10 954
Acquisitions for non-expendable equipment	5 284	9 223
Contracted services	19 542	21 712
Maintenance expenses	7 811	11 287
Rent	3 089	4 113
Stationery and office supplies	965	1 399
Miscellaneous expenses	366	288
Total	**53 512**	**67 626**

169. Exchange losses of $15.917 million from 2014 have been reclassified to other expenses under note 25.

170. The 2014 joint activities expense of $1.538 million has been reclassified to contracted services expenses.

171. Bad debt expenses consist of $17.095 million in write-offs of uncollected pledges (2014: $3.020 million) and a reduction in the allowance for doubtful debts of $6.046 million (2014: $3.175 million). The write-offs consist of $10.147 million from Brazil and $0.878 million from Australia for the drug fund; $4.955 million from Brazil, $0.02 million from the International Organization for Migration, $0.213 million from Denmark, $0.145 million from Mexico, $0.269 million from Norway, $0.479 million from the United Kingdom of Great Britain and Northern Ireland, $0.024 million from the United States of America and $0.008 million from UNDP for the crime fund; and $0.016 million from Banco Comercial Português for the fund for the United Nations Interregional Crime and Justice Research Institute.

172. The contribution in kind for premises of $3.080 million represents the handover of completed construction to end beneficiaries, and the reduction in this amount is due to the decrease in construction activities compared with the previous year.

173. The contracted services under other operating expenses consist of various services rendered by individuals or institutions. Such services are generally in specialized areas such as research and analysis, surveys, studies and meeting/training services. Within the total of $19.542 million, $7.226 million represents various contracted services under the alternative development programme of Colombia.

Note 25
Other expenses

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Miscellaneous	644	833
Exchange losses	9 103	15 917
Total other expenses	**9 747**	**16 750**

174. Exchange losses of $15.917 million from 2014 have been reclassified from other operating expenses.

175. The exchange loss of $9.103 million includes $5.999 million of unrealized loss attributable to the revaluation of receivables, payables and cash balances in Colombian pesos as at 31 December 2015.

Note 26
Related parties

Key management personnel

176. The key management personnel of UNODC are the Executive Director, the directors of the four UNODC divisions and the director of the United Nations Interregional Crime and Justice Research Institute, as they all have authority and responsibility for planning, directing and controlling the activities of the Office. Their compensation is shown in the table below.

Compensation of key management personnel

(Thousands of United States dollars)

	Number of posts	*Salaries and post adjustments*	*Entitlements*	*Pension and health benefits*	*Total remuneration*	*Outstanding advances against entitlements as at 31 December 2015*
Key management personnel	7	1 011	57	291	1 359	82

177. Key management personnel earn post-employment benefits at the same level as other employees. With the exception of pension fund benefits, other post-retirement benefits cannot be reliably quantified.

178. Entitlements include mobility and hardship allowance, home leave and rental subsidy.

179. The key management personnel do not hold any other interests with UNODC.

Note 27
Leases and commitments

Operating leases

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Due in less than one year	511	518
Due in one to five years	579	339
Total minimum operating lease obligations	**1 090**	**857**

180. The operating lease includes $1.087 million in donated rights-to-use arrangements, for which corresponding revenue is included in statement II and presented within voluntary contributions revenue (note 18: Voluntary contributions).

Contractual commitments

181. As at the reporting date, the commitments for property, plant and equipment, intangible assets and goods and services contracted but not delivered are set out in the table below.

Commitments for property, plant and equipment, intangible assets and goods and services

(Thousands of United States dollars)

	31 December 2015	*31 December 2014*
Property, plant and equipment	540	258
Goods and services	8 414	3 282
Total open contractual commitments	**8 954**	**3 540**

Note 28
Contingent liabilities and contingent assets

182. In accordance with IPSAS, claims classified as possible but not probable losses are not recognized for accounting purposes. As at 31 December 2015, a possible claim estimated at $0.118 million related to a labour dispute in a country field office remained unsettled. In the process, a judgment lien against a UNODC bank account was instated for the same. In the light of the privileges and immunities of the United Nations before national courts, management does not expect a resolution with an adverse impact to UNODC. Assessment of this case is performed on an ongoing basis and any changes will be reported accordingly.

Note 29
Events after the reporting date

183. The reporting date for these financial statements is 31 December 2015. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Annex I

Revenue from voluntary contributions for the year ended 31 December 2015

(Thousands of United States dollars)

Donor	*Crime programme*	*Drug programme*	*Total*
A. Voluntary contributions from Member States			
Afghanistan	1	–	1
Australia	290	1 006	1 296
Austria	305	164	469
Bangladesh	–	1	1
Bolivia (Plurinational State of)	45	391	436
Brazil	259	534	793
British Virgin Islands	–	47	47
Canada	3 820	5 602	9 422
Chile	10	–	10
China	350	1 014	1 364
Colombia	2 620	30 477	33 097
Denmark	4 982	106	5 088
Ecuador	–	81	81
Estonia	–	5	5
Finland	–	4 076	4 076
France	1 416	955	2 371
Germany	587	1 180	1 767
India	6	812	818
Italy	3 017	–	3 017
Japan	7 775	2 870	10 645
Kazakhstan	–	50	50
Kuwait	–	5	5
Liechtenstein	–	25	25
Luxembourg	609	1 165	1 774
Mexico	656	1 885	2 541
Monaco	22	–	22
Morocco	5	–	5
Netherlands	1 921	–	1 921
New Zealand	46	100	146
Norway	1 845	303	2 148
Oman	–	10	10
Pakistan	–	1	1
Panama	210	3	213

Donor	*Crime programme*	*Drug programme*	*Total*
Paraguay	–	35	35
Peru	–	485	485
Philippines	10	–	10
Poland	–	31	31
Qatar	50 685	28	50 713
Republic of Korea	80	349	429
Russian Federation	620	1 380	2 000
Saudi Arabia	–	50	50
Singapore	5	–	5
South Africa	511	–	511
Spain	65	98	163
Sweden	1 915	2 775	4 690
Switzerland	492	–	492
Thailand	556	–	556
Trinidad and Tobago	53	–	53
Tunisia	–	1	1
Turkey	–	600	600
United Arab Emirates	–	1 000	1 000
United Kingdom of Great Britain and Northern Ireland	8 001	407	8 408
United States of America	19 898	22 116	42 014
Subtotal, A	**113 688**	**82 223**	**195 911**
B. Voluntary contributions from other government organizations			
Alcadia de Bucaramanga, Colombia	19	–	19
European Commission	21 528	12 514	34 042
Gobierno del Estado de Coahuila, Mexico	471	–	471
Inter-American Development Bank	–	1 805	1 805
International Criminal Police Organization	18	–	18
North Atlantic Treaty Organization	–	653	653
Organization of American States	5	–	5
Regional Anti-Corruption Initiative secretariat	527	–	527
United States Agency for International Development	–	4 000	4 000
World Bank	30	–	30
Subtotal, B	**22 598**	**18 972**	**41 570**
C. Funds received under inter-organizational arrangements			
Convention on International Trade in Endangered Species of Wild Fauna and Flora	573	–	573
Joint United Nations Programme on HIV/AIDS	–	4 313	4 313

Donor	*Crime programme*	*Drug programme*	*Total*
One UN: Albania	–	99	99
One UN: Cabo Verde	525	–	525
One UN: Ethiopia	71	–	71
One UN: United Republic of Tanzania	26	–	26
One UN: Viet Nam	308	30	338
Peacebuilding Fund	219	–	219
Somalia multi-window trust fund	417	–	417
Trust Fund to Support Initiatives of States Countering Piracy off the Coast of Somalia	580	–	580
United Nations Development Programme	1 255	25	1 280
United Nations Foundation	84	–	84
United Nations Fund for International Partnerships	1	–	1
United Nations Office for Disarmament Affairs	200	–	200
Subtotal, C	**4 259**	**4 467**	**8 726**
D. Public donations			
Associazione Ricreativa e Culturale Italiana	53	–	53
Caixa Seguradora, Brazil	278	–	278
Cassa di Risparmio di Torino	45	–	45
Drug Abuse Prevention Centre, Japan	–	132	132
Engineering Ingegneria Informatica	71	–	71
Fundació Privada Clínic per a la Recerca Biomèdica	31	–	31
Ingeniería de Sistemas para la Defensa de España	8	–	8
International Tropical Timber Organization	–	10	10
Kurt Mann Bäckerei & Konditorei	11	–	11
Lions Clubs International Foundation	–	250	250
Martin Ho, DOTS City	9	–	9
Nano 4 U	25	–	25
People Share Privatstiftung	72	–	72
Politecnico di Torino: Dipartimento di Autonomia e Informatica	63	–	63
Public donations	145	–	145
Rahimi & Rahimi	23	–	23
San Paolo Foundation	415	–	415
Siemens	1 199	–	1 199
Sovereign Military Order of Malta	–	10	10
Subtotal, D	**2 448**	**402**	**2 850**
Total, A+B+C+D	**142 993**	**106 064**	**249 057**

Annex II

Status of outstanding voluntary contributions as at 31 December 2015

(Thousands of United States dollars)

Donor	*Crime programme*	*Drug programme*	*Total*
A. Voluntary contributions from Member States			
Bolivia (Plurinational State of)	–	46	46
Brazil	1 163	520	1 683
Canada	1 659	2 810	4 469
Colombia	473	354	827
Denmark	3 468	52	3 520
Finland	–	3 282	3 282
France	–	5	5
Germany	–	954	954
India	3	512	515
Italy	464	321	785
Libya	3 000	4 069	7 069
Luxembourg	609	600	1 209
Mexico	183	900	1 083
Monaco	208	–	208
Netherlands	3 391	535	3 926
Norway	713	–	713
Panama	33 970	–	33 970
Qatar	48 215	–	48 215
Republic of Korea	68	99	167
Spain	66	99	165
Sweden	1 613	–	1 613
Switzerland	208	–	208
Thailand	14	–	14
United Arab Emirates	–	5 179	5 179
United Kingdom of Great Britain and Northern Ireland	6 433	39	6 472
United States of America	11 393	1 444	12 837
Subtotal, A	**117 314**	**21 820**	**139 134**
B. Voluntary contributions from other government organizations			
European Commission	89 984	32 725	122 709
Inter-American Development Bank	–	1 405	1 405
International Criminal Police Organization	33	–	33
North Atlantic Treaty Organization	–	253	253

Donor	*Crime programme*	*Drug programme*	*Total*
Regional Anti-Corruption Initiative secretariat	315	–	315
Tribunal of Mozambique	6	–	6
United States Agency for International Development	159	12 310	12 469
Subtotal, B	**90 497**	**46 693**	**137 190**
C. Funds received under inter-organizational arrangements			
Convention on International Trade in Endangered Species of Wild Fauna and Flora	574	–	574
Food and Agriculture Organization of the United Nations	18	–	18
International Labour Organization	131	–	131
Joint United Nations Programme on HIV/AIDS	–	2 649	2 649
United Nations Counter-Terrorism Centre	84	–	84
United Nations Development Programme	857	157	1 014
United Nations Trust Fund for Human Security	293	–	293
Subtotal, C	**1 957**	**2 806**	**4 763**
D. Public donations			
Associazione Ricreativa e Culturale Italiana	18	–	18
Cassa di Risparmio di Torino	44	–	44
Drosos Foundation	361	–	361
Engineering Ingegneria Informatica	53	–	53
Grupo 8 Segurança	1	–	1
Ingenieria de Sistemas para la Defensa de España	28	–	28
International Organization for Migration — Ethiopia	64	–	64
Lions Clubs International	–	150	150
Modern Times Group	38	–	38
Nano 4 U	24	–	24
Natural Resource Governance Institute	13	–	13
Politecnico di Torino: Dipartimento di Autonomia e Informatica	76	–	76
Public donations	2	–	2
San Paolo Foundation	410	–	410
Siemens	702	–	702
Subtotal, D	**1 834**	**150**	**1 984**
Total, A+B+C+D	**211 602**	**71 469**	**283 071**

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